

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application )

of )

HAWAIIAN BEACHES WATER )  
COMPANY, INC. )

For review and approval of rate )  
increases; revised rate schedules. )  
\_\_\_\_\_ )

Docket No. **2009-0161**

PUBLIC UTILITIES  
COMMISSION

2009 JUL 17 P 2:33

FILED

**APPLICATION**

**EXHIBITS HBWC 1 THROUGH HBWC 13; EXHIBIT HBWC-T-100**

**VERIFICATION**

**and**

**CERTIFICATE OF SERVICE**

MORIHARA LAU & FONG LLP

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HAWAIIAN BEACHES WATER COMPANY, INC.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application	)	
	)	
of	)	
	)	Docket No. _____
HAWAIIAN BEACHES WATER	)	
COMPANY, INC.	)	
	)	
For review and approval of rate	)	
increases; revised rate schedules.	)	
_____	)	

**APPLICATION**

HAWAIIAN BEACHES WATER COMPANY, INC., a Hawaii corporation (“Applicant”), pursuant to Hawaii Revised Statutes (“HRS”) § 269-16, as amended, and Hawaii Administrative Rules (“HAR”) Title 6, Chapter 61, hereby submits this application (“Application”) requesting that the Hawaii Public Utilities Commission (“Commission”):

1. Determine this Application to be complete, pursuant to HRS § 269-16(f), as amended, and HAR § 6-61-88;
2. Conduct a public hearing on the island of Hawaii to consider this Application in accordance with HRS § 269-12, HRS § 269-16, and HAR § 6-61-30;
3. Find that Applicant’s present rates and charges for its water customers are unjust and unreasonable and will not allow Applicant to recover all of its reasonably incurred expenses nor allow Applicant to earn a fair return on its prudently incurred investments in utility property;

4. Approve, pursuant to HRS § 269-16, the proposed increase in Applicant's rates and charges as set forth in Exhibit HBWC 5, and authorize Applicant to put into effect the proposed rates and charges after the date of authorization by the Commission;

5. Conduct this proceeding via the expedited 6-month process for review of small public utilities, pursuant to HRS § 269-16(f), as amended, and complete its deliberations and issue a proposed decision and order within six (6) months following the filing of a completed Application, pursuant to HRS § 269-16(f)(3), as amended; and

6. Grant such other relief as may be just and reasonable under the circumstances.

In support of this Application, Applicant provides the following information:

**I.**

**COMMUNICATIONS REGARDING THIS APPLICATION**

All pleadings, correspondence and communications regarding this Application should be addressed as follows:

MS. KATHERINE M. PRESCOTT  
MR. MARK J. PRESCOTT  
P.O. Box 22  
Pahoa, Hawaii 96778

Copies of all pleadings, correspondence and communications regarding this Application should also be sent to Applicant's counsel as follows:

MICHAEL H. LAU, ESQ.  
KRIS N. NAKAGAWA, ESQ.  
SANDRA L. WILHIDE, ESQ.  
Moriwara Lau & Fong LLP  
841 Bishop Street  
Suite 400  
Honolulu, Hawaii 96813

## II.

### **DESCRIPTION AND BACKGROUND OF APPLICANT**

Applicant whose principal place of business is at 15966 Punawai Street, P.O. Box 22, Pahoa, Hawaii 96778, was incorporated under the laws of the State of Hawaii on September 14, 2006 for the purpose of conducting operations and business as a water distribution company within the Hawaiian Beaches subdivision located in Pahoa, Puna District, on the island of Hawaii. Applicant is a public utility authorized by the Commission to provide water utility service pursuant to Decision and Order No. 23313, filed on March 21, 2007, in Docket No. 2006-0437.

Applicant currently serves approximately 1,100 customers within its authorized service territory. A map of Applicant's existing service territory is found in Exhibit A of its Rules, Regulations, and Rates for Water Service. Additional information relating to Applicant's water utility service is further described in the testimony of Applicant's consultant, Mr. Robert L. O'Brien. See Exhibit HBWC-T-100; see also Exhibit HBWC 1.

Applicant provides service to its existing customers at rates approved by the Commission pursuant to Proposed Decision and Order No. 23423, filed on May 8, 2007 ("Proposed Decision and Order"), which was adopted by Decision and Order No. 23469, filed on May 31, 2007 ("Decision and Order No. 23469"), and Order No. 23513, filed on June 27, 2007 ("Order No. 23513"), all in Docket No. 2006-0442.

## III.

### **BACKGROUND AND DESCRIPTION OF RATE RELIEF REQUESTED**

#### **A. Background of Prior Rate Case**

Applicant's current rate schedule consists of a fixed monthly water service charge of \$48.06 per residential (single family and condominiums) customer. During

Applicant's last rate case proceeding (i.e., Docket No. 2006-0442), Applicant sought to implement a volumetric or monthly water consumption charge as part of its rate increase. However, because Applicant had not yet completed its meter installation program, the Commission ordered Applicant to continue charging its customer the fixed monthly service charge until a reasonable and more reflective volumetric rate could be determined in Applicant's next rate proceeding. Specifically, the Commission ordered Applicant to: "file an application for review of its rates in a rate proceeding six (6) months after it completes its meter installation program or when sufficient data is available for [Applicant] to propose and support a rate design that includes a volumetric rate component, whichever is earlier." Proposed Decision and Order at 29-30 (emphasis in original).

Pursuant to the Commission's directive, Applicant is nearing completion of its meter installation program and has installed and/or replaced over 800 meters. Further, as described more fully in Mr. O'Brien's testimony (Exhibit HBWC-T-100 at 6-11), Applicant has been reading meters on a monthly schedule and believes that it has sufficient data to support the proposed volumetric or monthly water usage charge requested herein. See Exhibit HBWC 5.

#### **B. Rate Relief Requested**

In accordance with HAR § 6-61-88(3), Applicant seeks the review and approval of the Commission for a January 1, 2010 through December 31, 2010 test year ("2010 test year") net revenue increase of \$310,302. See Exhibit HBWC 6 (line 7, column 2). This amounts to an approximate 48.6% increase over the pro forma revenue amount of \$639,132 at present rates for the 2010 test year, as shown on Exhibit HBWC 6 (line 38,

column 2 and line 7, column 1, respectively) attached hereto and as further described in Mr. O'Brien's testimony. See Exhibit HBWC-T-100. If approved, the proposed revenue increase will provide Applicant with a 9.00% rate of return on its prudently incurred system improvements in its regulated operations, as shown on Exhibit HBWC 6 (line 33, column 1).

**C. Justification for Rate Relief Requested**

Applicant's current rates do not now and will not in the foreseeable future produce sufficient revenues to allow it to recover its prudently incurred expenses and earn a fair return on its prudently incurred investments. At present rates, Applicant projects a 2010 test year operating loss of \$73,945, and a negative 5.24% rate of return on an average rate base of \$1,410,016. See Exhibits HBWC 6 and HBWC 9. The instant rate case application is designed to eliminate the current ongoing losses and to allow Applicant to earn a fair return on its prudently incurred costs for utility assets providing water service to its customers.

**IV.**

**FILING REQUIREMENTS AND NOTICE OF INTENT**

In In re Kaupulehu Water Company, Docket No. 05-0124, Order No. 21906 (July 1, 2005) ("Order No. 21906"), the Commission declared that "HRS § 269-16(f) and HAR § 6-61-88 apply to public utilities that have *annual* gross revenues of less than \$2 million, rather than on a public utility's *pro forma* or proposed revenues stated in its general rate case application." See Order No. 21906 at 9 (emphasis in original). Applicant's unaudited financial statements for the calendar year ending December 31, 2008, attached hereto as Exhibit HBWC 2, Schedule 4, describe Applicant's annual

gross revenues for 2008, which is the most recent calendar year upon which to calculate its annual gross revenues. Applicant's unaudited financial statements indicate that its annual gross revenues for the calendar year ending 2008 was \$641,557 (Exhibit HBWC 2, Schedule 4, page 2, line 4), which is approximately \$1,360,000 below the \$2 million threshold set forth in HRS § 269-16(f), as amended, and HAR Chapter 61, Subchapter 8. Thus, the filing requirements of HAR § 6-61-88 (i.e., utilities with annual gross revenues of less than \$2 million) apply to this Application, and no notice of intent is required to be filed, pursuant to HAR § 6-61-85(a).

## V.

### **PRESENT AND PROPOSED RATES**

As more fully described in Exhibits HBWC 4, HBWC 5, HBWC 6, and HBWC 11.3, and Workpaper HBWC 11.3 of this Application, if Applicant's request for a rate increase is approved, the following rates and charges would increase as follows and would generate an additional \$310,302 in annual revenues, pro forma for the 2010 test year. See Exhibit HBWC 6.

Pursuant to HAR § 6-61-88, the following is a comparison of the present and proposed rates/charges for Applicant's customers:

#### **Monthly Meter Charges**

<b>Residential (Single Family and Condominiums)</b>	<b><u>Present Rate</u></b>	<b><u>Proposed Rate</u></b>	<b><u>Percent Increase</u></b>
<u>Fixed Monthly Service Charge Per Unit</u>	\$ 48.06	\$ 30.00	-37.6%
<u>Monthly Water Consumption Charge per 1,000 gallons of water us per month</u>		\$ 5.7818	[ a ]

[ a ]

Based on average monthly usage in gallons per month (gpm), customers in the following usage ranges will experience changes in total monthly charges as follows:

Usage Charge - 0 to 1,000 gpm (116 customers with average usage of 315 gpm)	-33.8%
Usage Charge - 1,001 to 5,000 gpm (329 customers with average usage of 2,930 gpm)	- 2.3%
Usage Charge - 5,001 to 10,000 gpm (399 customers with average usage of 7,296 gpm)	50.2%
Usage Charge - 10,001 to 15,000 gpm (162 customers with average usage of 12,164 gpm)	108.8%
Usage Charge - 15,001 to 25,000 gpm (76 customers with average usage of 17,993 gpm)	178.9%
Usage Charge - over 25,000 gpm ( 18 customers with average usage of 35,081 gpm)	384.5%

## VI.

### **FINANCIAL INFORMATION AND WAIVER REQUEST**

In accordance with HAR §§ 6-61-86 and 6-61-88<sup>1</sup> and consistent with the Consumer Advocate's standard form application guidelines<sup>2</sup>, Applicant hereby files and incorporates by reference the following exhibits<sup>3</sup>:

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<sup>1</sup> As previously discussed, because Applicant has annual gross operating revenues of less than \$2,000,000, the requirements set forth in HAR § 6-61-88 are applicable to this Application.

<sup>2</sup> See Commission's letter regarding "Form Application for Rate Increases by Small Utilities," dated October 29, 2007.

<sup>3</sup> Portions of applicable exhibits and/or workpapers that are a part of this Application have been redacted as confidential subject to the terms of a Protective Order to be issued in this docket. Subsequent to the filing of the instant Application, Applicant will request Commission approval of a Stipulation for Protective Order, pursuant to HAR § 6-61-50. Once the Commission approves or issues a decision approving said Stipulation for Protective Order, all confidential pages of the applicable exhibits and/or workpapers referenced as part of this Application will be filed pursuant and subject to the terms of the Protective Order to be issued in the subject docket in connection with that decision.



HBWC 1	General Description of Applicant's Property, Plant and Equipment.
HBWC 2	Financial Statements.
	<u>Schedules</u>
	(1) Stock Authorized and Outstanding.
	(2) Year-End Common Stock Outstanding (2007 to 2009).
	(3) Description of Security Agreements, Mortgages, and Deeds of Trust.
	(4) Unaudited Financial Statements as of December 31, 2008.
	(5) Unaudited Financial Statements (6-months ending June 30, 2009).
	(6) Description of Promissory Notes and Other Indebtedness.
HBWC 3	Applicant's Plant and Accumulated Depreciation.
HBWC 4	Present Rate Schedule.
HBWC 5	Proposed Rate Schedule.
HBWC 6	Rate of Return Summary at Present and Proposed Rates Pro Forma for the Test Year Ended December 31, 2010.
	HBWC 6.1 Revenue Requirements Support.
HBWC 7	Income Tax Expense for Test Year Ended December 31, 2010, Recorded at Present Rates and Pro Forma at Proposed Rates.
HBWC 8	Taxes Other Than Income Taxes for Test Year Ended December 31, 2010 Recorded at Present Rates and Pro Forma at Proposed Rates.
HBWC 9	Average Rate Base 2010 Test Year.
	HBWC 9.1 Pro Forma Rate Base Support.
	HBWC 9.2 Plant In Service.
	HBWC 9.3 Accumulated Depreciation.
	HBWC 9.4 Depreciation Expense (Book).

	HBWC 9.5	Hawaii Capital Goods Excise Tax Credit (HCGETC).
	HBWC 9.6	Accumulated Deferred Income Taxes.
	HBWC 9.7	Contributions in Aid of Construction (CIAC).
	HBWC 9.8	Customer Deposits.
	HBWC 9.9	Working Cash.
HBWC 10		Pro Forma Historical Summary.
	HBWC 10.1	Salaries & Wages.
	HBWC 10.2	Employee Benefits & Payroll Taxes.
	HBWC 10.3	Purchased Electricity.
	HBWC 10.4	Accounting.
	HBWC 10.5	Insurance.
	HBWC 10.6	Auto & Truck Expense.
	HBWC 10.7	Postage.
	HBWC 10.8	Legal & Professional.
	HBWC 10.9	Communications.
	HBWC 10.10	Office Supplies & Expense.
	HBWC 10.11	Rate Case Amortization.
	HBWC 10.12	Repair and Maintenance.
	HBWC 10.13	Capitalized Non-Payroll Expenses.
	HBWC 10.14	Bad Debt Expense.
HBWC 11		Pro Forma Revenue Summary.
	HBWC 11.1	Other Revenue.
HBWC 12		Cost of Service Summary.
	HBWC 12.1	Cost of Service – Plant & Depreciation.
HBWC 13		Rate of Return – Comparison of Companies, 2008 Financial and Other Data.
	HBWC 13.1	Rate of Return – Comparison of Recommended and Final Rates of Return.
	HBWC 13.2	HBWC Rate of Return.
HBWC-T-100		Testimony of Robert L. O'Brien.
Workpapers		

In addition, pursuant to HAR § 6-61-92, Applicant respectfully requests that its unaudited financial statements (Exhibit HBWC 2, Schedules 4 and 5) submitted with this Application be accepted in lieu of the audited financial statements otherwise required by HAR § 6-61-75. As a small utility with annual revenues less than \$2,000,000, Applicant does not have audited annual financial reports. To have one prepared solely for this Application would delay the filing and would unjustly impose additional financial burdens on Applicant. Applicant notes that the Commission has previously waived the audited financial statement requirement for other similarly situated utilities. See, e.g., HOH Utilities, LLC, Docket No. 05-0024; Pukalani STP Co., Ltd., Docket No. 05-0025; KRWC Corp., dba Kohala Ranch Water Co., Docket No. 05-0334; Puhi Sewer & Water Co., Inc., Docket No. 2006-0423; Miller & Lieb Water Co., Inc., Docket No. 2006-0442; Laie Water Co., Inc., Docket No. 2006-0502; and Kukio Utility Co., LLC, Docket No. 2007-0198.

## **VII.**

### **CONCLUSION**

WHEREFORE, Applicant respectfully requests as follows:

1. That this Application be deemed a completed Application under HRS § 269-16(f) and HAR § 6-61-88;
2. That a public hearing be conducted on the island of Hawaii to consider this Application, in accordance with HRS § 269-12, HRS § 269-16, and HAR § 6-61-30;
3. That the Commission find that Applicant's present rates and charges for its customers are unjust and unreasonable and will not allow Applicant to

recover all of its reasonably incurred expenses nor allow Applicant to earn a fair return on its prudently incurred investments in utility property.

4. That the Commission approve, pursuant to HRS § 269-16, the proposed increase in Applicant's rates and charges as set forth above and in Exhibit HBWC 5 of this Application, and authorize Applicant to put into effect the proposed rates and charges after the date of authorization by the Commission.

5. That the Commission conduct this proceeding pursuant to HRS § 269-16(f), as amended, and complete its deliberations and issue a proposed decision and order within six (6) months following the filing of a completed Application; and

6. That the Commission grant such other and further relief, including any interim rate increase, as may be just and equitable.

DATED: Honolulu, Hawaii, July 17, 2009.



---

MICHAEL H. LAU  
KRIS N. NAKAGAWA  
SANDRA L. WILHIDE

Morihara Lau & Fong LLP  
Attorneys for Applicant  
HAWAIIAN BEACHES WATER COMPANY, INC.

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 1**

**PROPERTY, PLANT AND EQUIPMENT**

**( 2 Pages )**

**Hawaiian Beaches Water Company, Inc.**

**Property, Plant and Equipment**

**Property**

The Hawaiian Beaches Water Company, Inc. ("HBWC" or "Company"), located on the Island of Hawaii, contains plant that was initially used by HBWC's predecessor through 2007 and by HBWC thereafter, to provide service to its customers since 1975 with necessary replacements and expansions through 2009 to serve customers in its service territory.

**Plant**

HBWC's utility plant in service consists of two wells, pumps, storage tanks, transmission and distribution mains, office, office equipment and furniture, vehicles and appropriate replacement equipment for its operations.

**Wells and Pumps**

HBWC has one 8-inch well that is 445 feet deep, Well # 3185-01, which was installed in 1964 with a new well pump rated at 550 gpm, 100 hp. The Company has a second well, Well # 3185-03, which was completed in 2008 and is presently in service with a pump rated at 625 gpm, 100 hp. The wells are required to continue to provide for the Company's existing and near future customers and provide for an emergency backup source of supply to provide for reliability of water supply for its customers. In addition,

the Company has a pump in reserve for emergency purposes and to use when existing pumps are out for maintenance.

**Storage Facilities, Transmission and Distribution Mains**

The Company has two storage tanks located at the well site serving all of its service territory with a total storage capacity of 430,000 gallons. The Company's transmission and distribution facilities are able to provide service to existing and prospective customers.

**Other Facilities**

The Company also has office furniture and equipment and transportation equipment necessary to support its operations and provide services to its customers.

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 2**

**SCHEDULE 1**

**STOCK AUTHORIZED AND OUTSTANDING**

**( 1 Page )**



**Hawaiian Beaches Water Company, Inc.**

**Stock Authorized and Outstanding**

**June 30, 2009**

<b><u>Description</u></b>	<b><u># of Shares Authorized</u></b>	<b><u># of Shares Issued</u></b>	<b><u>PAR Value Per Share</u></b>	<b><u>Total PAR Value</u></b>
Preferred Stock	None	None	N/A	N/A
Common Stock	100,000	2,000	\$1.00	\$2,000

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 2**

**SCHEDULE 2**

**COMMON STOCK OUTSTANDING**

**( 1 Page )**

**Hawaiian Beaches Water Company, Inc.**

**Common Stock Outstanding**

**June 30, 2009**

<b><u>Year Owned</u></b>	<b><u>Owner(s)</u></b>	<b><u>Number of Shares</u></b>
December 31, 2007	Katherine Prescott	1,000
	Mark Prescott	1,000
December 31, 2008	Katherine Prescott	1,000
	Mark Prescott	1,000
June 30, 2009	Katherine Prescott	1,000
	Mark Prescott	1,000

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 2**

**SCHEDULE 3**

**SECURITY AGREEMENTS, MORTGAGES  
AND DEEDS OF TRUST**

**( 1 Page )**

**Hawaiian Beaches Water Company, Inc.**

**Security Agreements, Mortgages and Deeds of Trust**

**June 30, 2009**

- 1. First Mortgage in favor of Bank of Hawaii of land underlying well and tanks.**
- 2. Second Mortgage in favor of HEDCO of land underlying well and tanks.**
- 3. Grant of security interest to Bank of Hawaii in all other assets and personal property of HBWC.**

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 2**

**SCHEDULE 4**

**UNAUDITED FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2008**

**( 16 Pages )**

HAWAIIAN BEACHES WATER COMPANY, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
DECEMBER 31, 2008

HAWAIIAN BEACHES WATER COMPANY, INC.

FOR THE YEAR ENDED  
DECEMBER 31, 2008

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PEASLEY, ALDINGER & O'BYMACHOW  
AN ACCOUNTANCY CORPORATION  
2120 MAIN STREET, SUITE 265  
HUNTINGTON BEACH, CALIFORNIA 92648

MATT A. PEASLEY, CPA  
CHRISTIAN L. ALDINGER, CPA

ACCOUNTANT'S COMPILATION REPORT

March 31, 2009

To the Board of Directors  
Hawaiian Beaches Water Company, Inc.  
Pahoa, Hawaii

We have compiled the accompanying balance sheet of Hawaiian Beaches Water Company, Inc. (a Hawaii corporation) as of December 31, 2008, and the related statement of operations, stockholders' equity (deficit) and cash flows for the year then ended, and the accompanying supplementary information contained on page 13, which is presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

PEASLEY, ALDINGER, & O'BYMACHOW  
AN ACCOUNTANCY CORPORATION



Christian L. Aldinger  
Certified Public Accountant

HAWAIIAN BEACHES WATER COMPANY, INC.  
BALANCE SHEET  
DECEMBER 31, 2008

Application Filed July 17, 2009  
Exhibit HBWC 2, Schedule 4  
Unaudited Financial Statements  
as of December 31, 2008  
Page 4 of 16

ASSETS

Utility Plant:

Plant in service, at cost or fair value	\$ 655,272
Less: Accumulated depreciation	<u>(257,825)</u>
Utility plant in service, net, (Note 2)	<u>397,447</u>
Construction work in progress	<u>1,029,264</u>

Total Utility Plant	<u>1,426,711</u>
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Current Assets:

Cash and cash equivalents	8,156
Accounts receivable - customers	<u>45,690</u>

Total Current Assets	<u>53,846</u>
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Other Assets:

Deferred charges, (Note 3)	<u>22,109</u>
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TOTAL ASSETS	<u><u>\$ 1,502,666</u></u>
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CAPITALIZATION AND LIABILITIES

Capitalization:

Stockholders' equity (deficit):

Common stock, 100,000 shares authorized; 2,000 shares issued and outstanding	\$ -
Additional paid-in capital	221,225
Accumulated deficit, (Note 7)	<u>(346,473)</u>

Total stockholders' deficit	<u>(125,248)</u>
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Long-term debt, (Note 4)	<u>1,468,295</u>
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Total Capitalization	<u>1,343,047</u>
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Current Liabilities:

Current maturities of long term debt	34,855
Accounts payable	38,974
Accrued expenses	8,037
Customer deposits	<u>11,642</u>

Total Current Liabilities	<u>93,508</u>
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Other Liabilities and Deferred Credits:

Contributions in aid of construction	<u>66,111</u>
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TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 1,502,666</u></u>
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See Accompanying Notes and Accountant's Compilation Report

HAWAIIAN BEACHES WATER COMPANY, INC.  
 STATEMENT OF OPERATIONS  
 FOR THE YEAR ENDED DECEMBER 31, 2008

Application Filed July 17, 2009  
 Exhibit HBWC 2, Schedule 4  
 Unaudited Financial Statements  
 as of December 31, 2008  
 Page 5 of 16

Operating Revenues	
Unmetered revenues	\$ 641,557
Metered revenues	<u>-</u>
Total Operating Revenues	641,557
Operating Expenses and Taxes:	
Operation and maintenance	373,815
General and Administrative	106,958
Depreciation	37,154
Taxes:	
Income	-
Other taxes	<u>38,126</u>
Total Operating Expenses and Taxes	<u>556,053</u>
Operating Income (Loss)	<u>85,504</u>
Other Income and Deductions:	
Interest and dividend income	531
Other non-operating income (expense)	<u>(35)</u>
Total Other Income and Deductions	<u>496</u>
Income (Loss) Before Interest Charges	<u>86,000</u>
Interest Charges:	
Interest on long term debt	83,028
Interest on short term debt and other	<u>1,097</u>
Total Interest Charges	<u>84,125</u>
Net Income (Loss)	<u><u>\$ 1,875</u></u>

See Accompanying Notes and Accountant's Compilation Report

HAWAIIAN BEACHES WATER COMPANY, INC.  
 STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
 FOR THE YEAR ENDED DECEMBER 31, 2008

Application Filed July 17, 2009  
 Exhibit HBWC 2, Schedule 4  
 Unaudited Financial Statements  
 as of December 31, 2008  
 Page 6 of 16

	Common Stock	Additional Paid-In Capital	(Deficit)	Total Stockholders' Equity(Deficit)
Balances, January 1, 2008	\$ -	\$ 174,075	\$ (348,348)	\$ (174,273)
Additional Paid in Capital		47,150		47,150
Net Income			1,875	1,875
Balances, December 31, 2008	<u>\$ -</u>	<u>\$ 221,225</u>	<u>\$ (346,473)</u>	<u>\$ (125,248)</u>

See Accompanying Notes and Accountant's Compilation Report

HAWAIIAN BEACHES WATER COMPANY, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2008

Application Filed July 17, 2009  
Exhibit HBWC 2, Schedule 4  
Unaudited Financial Statements  
as of December 31, 2008  
Page 7 of 16

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$ 1,875
Adjustments to Reconcile Net Income to Cash	
Provided by Operating Activities:	
Depreciation	37,154
Decrease (increase) in receivables	(20,794)
Decrease (increase) in material and supplies	-
Decrease (increase) in deferred charges	44,218
Increase (decrease) in accounts payable	35,197
Increase (decrease) in accrued expenses	(10,638)
Increase (decrease) in customer deposits	(447)

NET CASH PROVIDED BY OPERATING ACTIVITIES 86,565

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures	<u>(1,152,365)</u>
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NET CASH FLOWS USED FOR INVESTING  
ACTIVITIES (1,152,365)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds of contributions in aid of construction	18,000
Proceeds of Additional Paid in Capital	47,150
Repayments of long term debt	(7,658)
Proceeds of long term debt	<u>897,765</u>

NET CASH FLOWS PROVIDED BY FINANCING  
ACTIVITIES 955,257

NET INCREASE (DECREASE) IN CASH (110,543)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 118,699

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 8,156

SUPPLEMENTAL DISCLOSURE OF  
CASH FLOW INFORMATION:

Interest paid	<u>\$ 84,125</u>
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Note 1: SIGNIFICANT ACCOUNTING POLICIES:

General

Hawaiian Beaches Water Company, Inc., is engaged in the sale and distribution of water to domestic consumers within the Hawaiian Beaches subdivision located in Pahoa, Puna District, island of Hawaii. Company operations include the collection, storage, and processing of natural water. The Company was incorporated on September 13, 2006. On March 21, 2007, pursuant to Decision and Order 23313 of the Hawaii Public Utilities Commission, The Company was granted the authority to acquire the assets and water utility operations of Miller & Lieb Water Company. On April 1, 2007 the assets of Miller & Lieb Water Company were acquired by the Company. The Company follows the accounting policies prescribed or authorized by the Public Utilities Commission of the State of Hawaii (HPUC) and the National Association of Regulatory Utility Commissioners.

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The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

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Water revenues through the year ended December 31, 2008 include amounts billed to customers.

The Company extends credit to its utility customers for service provided during each billing period as provided by the HPUC. The HPUC does not allow the Company to accrue interest on delinquent payments, but the Company is allowed to charge late fees and to discontinue service when delinquent payments are not made. The Company charges off uncollectible receivables from its customers when it has determined that continued collection efforts are unlikely to result in their recovery. The Company has provided allowances for uncollectible receivables of \$0 as of December 31, 2008 based upon the Company's past experience in its collections from customers.

Utility Plant

Utility plant is stated at original cost or fair value for properties acquired by contribution. All expenditures for maintenance and repairs of property, including renewals of minor items, are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of property, plant, and equipment. At the time of retirement the accumulated depreciation is charged with the original cost of the property retired and any cost of removal, and is credited with any salvage recovered.

Depreciation

The provision for depreciation is determined by use of the composite straight-line remaining life method as required by the HPUC for utility property. Under this method the annual rates are based upon periodic studies of the estimated service lives of the properties. Depreciation rates are reviewed periodically and changes in estimates are made as appropriate. The aggregate depreciation provision on utility property not purchased with loans approved by the HPUC for recovery from customers is equivalent to 8.12% of average depreciable plant for the year ended December 31, 2008.

Note 1: SIGNIFICANT ACCOUNTING POLICIES: (continued)

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The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents .

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As required by the HPUC, the Company grants credit to customers in its service territory. The Company collects a security deposit from each new customer (who does not own the property served). The deposits are refundable after one year (assuming timely payments were made during that year).

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Contributions in aid of construction are donations or contributions in cash, services, or other property from governmental agencies, developers, or individuals for the purpose of constructing utility plant. Depreciation applicable to such plant is charged to the contributions in aid account rather than to depreciation expense. The charges continue until the cost applicable to such properties has been fully depreciated or the asset is retired.

Financial Instrument Risk

The Company does not carry any financial instruments with off-balance sheet risk.

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In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of retained earnings. Additional disclosures about the amounts of such liabilities will be required also. The Company presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, Accounting for Contingencies. The Company has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises, such as Hawaiian Beach Water Company, included within its scope to the annual financial statements for the fiscal years beginning after December 15, 2009. The Company will be required to adopt FIN 48 in its 2009 annual financial statements. Management has not assessed the impact of FIN 48 on its financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

Note 2: UTILITY PLANT:

Utility plant at December 31, 2008 is comprised of the following:

Structures	\$ 6,431
Wells	-
Pumping equipment	97,480
Water treatment equipment	26,046
Reservoirs and tanks	-
Mains	55,083
Meters and services	386,671
Office equipment and shop equipment	24,449
Transportation equipment	<u>59,112</u>
	655,272
Less: accumulated depreciation	<u>(257,825)</u>
Utility plant in service, net	<u>\$ 397,447</u>

Total depreciation expense for the year ended December 31, 2008, was \$37,154.



Note 3: DEFERRED CHARGES:

On June 27, 2007, pursuant to Order No. 23513, the Hawaii Public Utilities Commission granted the Company authority to increase and revise its rate schedules. In connection with this matter the Company has been allowed to recover the costs associated with the filing and processing of the rate increase proceeding.

Per the settlement agreement reached and approved (as modified) in Order No. 23513, the Company is amortizing the rate proceeding as follows:

Total authorized	\$ 88,436
Amortized 7/1/07 to 12/31/07	(22,109)
Amortized 1/1/08 to 12/31/08	<u>(44,218)</u>
Unamortized balance 12/31/07	<u>\$ 22,109</u>
To be amortized in 2009	\$ 22,109

Note 4: LONG-TERM DEBT:

Bank of Hawaii Loan

On June 27, 2007, the Company was granted authority by Order No. 23513 of the Hawaii Public Utilities Commission to enter into a loan agreement with the Bank of Hawaii for purposes of financing a new well, pumping equipment and storage facilities.

On June 6, 2007, the Company entered into a loan agreement with the Bank of Hawaii to borrow a total of \$1,001,867 through two loans. The first loan is known as "Facility I" and is for a total of \$589,334. The second loan is known as "Facility II" and is in the amount of \$412,533. Once the system improvements are completed, Facility II loan will be refinanced through HEDCO (a Hawaii non-profit corporation that assists small businesses in rural areas). This refinance is expected to occur in September 2009. The provision of the notes states that the Company will draw funds when needed for construction. The interest rate on both loans is variable and is based on the Federal Home Loan Bank of Seattle fixed rate (currently 5%) plus 2% (currently 7%). When the well project is complete the loan will be amortized over 10 years.

Installment Contracts – Saddleback Loan Company

On May 8, 2007, the Company entered into a leasing agreement with the Saddleback Loan Company to refinance two vehicles acquired from Miller & Lieb Water Company. Pursuant to FASB No. 13, the lease is treated as a capital lease. The term of the lease was originally for 42 months and as of December 31, 2007, 36 payments of \$919.72 remain on the lease. The balance due, net of interest, was \$29,786. Interest on this agreement is 7% per annum. As of December 31, 2007, the collateral for the lease obligation is a 2003 Ford Explorer and a 2006 Nissan Titan Truck.

Note 4: LONG-TERM DEBT: (Continued)

Balonne Plains Pty. Ltd. - Note

In connection with the acquisition of the assets and operations of Miller & Lieb Water Company, the Company assumed a liability due to Balonne Plains Pty Ltd., an Australian corporation ("Balonne"). Beginning in 2005, Balonne made numerous advances to cover working capital needs of Miller & Lieb Water Company and to sustain its operations. On September 1, 2007, the advances were combined into an unsecured promissory note in the amount of \$489,425. The note calls for interest only payments for 36 months at a rate of 8.7%. Monthly interest payments are \$3,548.33. After 36 months, on September 1, 2010, payments shall increase to \$6,000 per month. The final payment is scheduled to be paid on October 1, 2020. Balonne Plains Pty Ltd. is owned by the father of the shareholders of the Company.

The loans and installment contract balances at December 31, 2008 were as follows:

Installment contracts - vehicles	\$ 22,128
Bank of Hawaii (Facility I)	570,064
Bank of Hawaii (Facility II)	421,533
Balonne Plains Pty Ltd.	<u>489,425</u>
	<u>\$ 1,503,150</u>

Future long-term debt maturities are as follows:

	Capital Lease	Unsecured Loan	Facility I	Facility II	Total
December 31, 2009	\$ 11,499	\$ -	\$ 13,739	\$ 9,617	\$ 34,855
December 31, 2010	10,629	13,540	43,189	30,232	97,590
December 31, 2011	-	31,848	46,311	32,417	110,576
December 31, 2012	-	34,732	49,658	34,761	119,151
December 31, 2013	-	37,877	53,248	37,274	128,399
Later years	-	371,428	363,919	277,232	1,012,579
	<u>\$ 22,128</u>	<u>\$ 489,425</u>	<u>\$ 570,064</u>	<u>\$ 421,533</u>	<u>\$ 1,503,150</u>

Note 5: INCOME TAXES:

The income tax provision is comprised of the following:

Current federal	\$ -
Current state	-
Deferred	-
	<hr/>
Total Income Tax Expense	\$ -
	<hr/>
Income taxes included in operating expenses	-
Income taxes included in other income	-
	<hr/>
Total Income Tax Expense	\$ -
	<hr/>

The income tax effect of income and expense transactions are included in each year's statement of income, regardless of the year the transactions are reported for income tax purposes. Deferred income taxes result from timing differences in the recognition of these income and expense items for tax and financial statement purposes.

The components of deferred income tax assets (liabilities) are as follows:

Deferred Income Tax Assets (Liabilities):

Current:

Net operating loss	\$ -
Other	-
	<hr/>
	-
	<hr/>

Noncurrent:

Excess tax over book depreciation	-
Taxable contributions in aid of construction	-
Net operating loss	-
Other	-
	<hr/>
	-
	<hr/>

Total Deferred Income Taxes	\$ -
	<hr/>

At December 31, 2008, the Company had approximately \$189,000 of net operating loss carryovers expiring in the years 2028.

Note 5: INCOME TAXES: (continued)

A reconciliation of the differences between actual income tax expense and the amount computed by applying the statutory federal income tax rate at 34% to pretax income is as follows:

Compute statutory federal income tax	\$ 638
State income taxes, net of federal benefit	-
Investment tax credits	-
Nondeductible amounts and other	<u>(638)</u>
Total Income Tax Expense	<u>\$ -</u>

Note 6: RELATED PARTY TRANSACTIONS:

As explained in Note 4, the Company has assumed the obligation to repay working capital loans from an entity owned by the father of its shareholders.

The Company has borrowed additional amounts from the entity owned by the father of its shareholders as described in Note 4. The loans, amounting to \$489,425 at December 31, 2008, are due within ten years at interest rates of 8.7%. Total interest expense related to these loans amounted to \$28,387 for the year ended December 31, 2008.

The Company employs both of its shareholders; one as President and manager of the Company and the other is employed as field manager. Total salary expense for these services amounted to \$130,224 for the year ended December 31, 2008.

Note 7: ACQUISITION ADJUSTMENT:

On March 21, 2007 the Hawaii Public Utilities Commission issued decision and order no. 23313 which gave Hawaiian Beaches Water Company, Inc., approval and authority to acquire the assets and operations of Miller & Lieb Water Company. On April 1, 2007 pursuant to the transfer of assets, the company also acquired existing liabilities of Miller & Lieb Water Company which resulted in liabilities exceeding assets. Therefore an acquisition adjustment account was created to recognize the acquisition cost of the assets above and beyond the original book value of the existing assets. Due to the nature of the regulatory process and related rate making rules, the acquisition adjustment as described above has no future value and was immediately charged to retained earnings at the time of the transfer.

SUPPLEMENTARY INFORMATION

HAWAIIAN BEACHES WATER COMPANY, INC.  
SCHEDULES 1 AND 2  
FOR THE YEAR ENDED DECEMBER 31, 2008

Application Filed July 17, 2009  
Exhibit HBWC 2, Schedule 4  
Unaudited Financial Statements  
as of December 31, 2008  
Page 16 of 16

SCHEDULE 1 - OPERATING EXPENSES

601 Employee Wages	\$ 79,840
603 Officer Wages	127,800
604 Employee Benefits	25,722
610 Purchased Water	-
615 Purchased Power	185,691
618 Chemicals	1,623
620 Materials & Supplies	54
Less: Capitalized to CWIP	(46,915)
TOTAL - OPERATING EXPENSES	<u>\$ 373,815</u>

SCHEDULE 2 - GENERAL AND ADMINISTRATIVE EXPENSE

632 Contract Services - Accounting	\$ 9,979
633 Contract Services - Legal	348
636 Contract Services - Other	1,096
642 Rental of Equipment	0
650 Transportation Expense	20,853
657 Insurance - General Liability	13,973
658 Insurance - Workers Compensation	4,643
659 Insurance - Other	7,251
666 Regulatory Commission Exp - Amort of Rate Case Expense	44,218
675 Misc Expense - Repair & Maintenance	819
675 Misc Expense - Bank Service Charges	9,734
675 Misc Expense - Classes	1,645
675 Misc Expense - Data Processing/ Billing	2,258
675 Misc Expense - Dues & Professional Fees	787
675 Misc Expense - Office Expense	3,775
675 Misc Expense - Permits	175
675 Misc Expense - Service & Repair	30
675 Misc Expense - Notice To Customers	425
675 Misc Expense - Postage	4,202
675 Misc Expense - Outside Services	0
675 Misc Expense - Electricity	3,138
675 Misc Expense - Telephone	5,213
675 Misc Expense - Ans. Service & Pager	747
675 Misc Expense - Other	2,246
Less: Capitalized to CWIP	(30,597)
TOTAL - GENERAL AND ADMINISTRATIVE EXPENSE	<u>\$ 106,958</u>

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 2**

**SCHEDULE 5**

**UNAUDITED FINANCIAL STATEMENTS**

**SIX MONTHS ENDED JUNE 30, 2009**

**( 16 Pages )**

HAWAIIAN BEACHES WATER COMPANY, INC.

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED  
JUNE 30, 2009



HAWAIIAN BEACHES WATER COMPANY, INC.

FOR THE SIX MONTHS ENDED  
JUNE 30, 2009

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**PEASLEY, ALDINGER & O'BYMACHOW**  
AN ACCOUNTANCY CORPORATION  
2120 MAIN STREET, SUITE 265  
HUNTINGTON BEACH, CALIFORNIA 92648

MATT A. PEASLEY, CPA  
CHRISTIAN L. ALDINGER, CPA

(714) 536-4418  
FAX (714) 536-2039

ACCOUNTANT'S COMPILATION REPORT

July 9, 2009

To the Board of Directors  
Hawaiian Beaches Water Company, Inc.  
Pahoa, Hawaii

We have compiled the accompanying balance sheet of Hawaiian Beaches Water Company, Inc. (a Hawaii corporation) as of June 30, 2009, and the related statement of operations, stockholders' equity (deficit) and cash flows for the year then ended, and the accompanying supplementary information contained on page 13, which is presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

PEASLEY, ALDINGER, & O'BYMACHOW  
AN ACCOUNTANCY CORPORATION



Christian L. Aldinger  
Certified Public Accountant

HAWAIIAN BEACHES WATER COMPANY, INC.  
BALANCE SHEET  
JUNE 30, 2009

Application Filed July 17, 2009  
Exhibit HBWC 2, Schedule 5  
Unaudited Financial Statements  
(6-months ending June 30, 2009)  
Page 4 of 16

ASSETS

Utility Plant:

Plant in service, at cost or fair value	\$ 1,816,623
Less: Accumulated depreciation	<u>(283,567)</u>
Utility plant in service, net, (Note 2)	<u>1,533,056</u>
Construction work in progress	<u>-</u>

Total Utility Plant 1,533,056

Current Assets:

Cash and cash equivalents	72,266
Accounts receivable - customers	13,475
Accounts receivable - other	<u>1,053</u>

Total Current Assets 86,794

Other Assets:

Deferred charges, (Note 3)	<u>-</u>
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TOTAL ASSETS \$ 1,619,850

CAPITALIZATION AND LIABILITIES

Capitalization:

Stockholders' equity (deficit):

Common stock, 100,000 shares authorized; 2,000 shares issued and outstanding	\$ -
Additional paid-in capital	221,225
Accumulated deficit, (Note 7)	<u>(349,833)</u>

Total stockholders' deficit (128,608)

Long-term debt, (Note 4) 1,578,515

Total Capitalization 1,449,907

Current Liabilities:

Current maturities of long term debt	29,222
Accounts payable	61,124
Accrued expenses	542
Customer deposits	<u>14,705</u>

Total Current Liabilities 105,593

Other Liabilities and Deferred Credits:

Contributions in aid of construction	<u>64,350</u>
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TOTAL CAPITALIZATION AND LIABILITIES \$ 1,619,850

See Accompanying Notes and Accountant's Compilation Report

HAWAIIAN BEACHES WATER COMPANY, INC.  
 STATEMENT OF OPERATIONS  
 FOR THE SIX MONTHS ENDED JUNE 30, 2009

Application Filed July 17, 2009  
 Exhibit HBWC 2, Schedule 5  
 Unaudited Financial Statements  
 (6-months ending June 30, 2009)  
 Page 5 of 16

Operating Revenues	
Unmetered revenues	\$ 325,718
Metered revenues	<u>-</u>
Total Operating Revenues	325,718
Operating Expenses and Taxes:	
Operation and maintenance	176,751
General and Administrative	71,284
Depreciation	23,980
Taxes:	
Income	-
Other taxes	<u>21,995</u>
Total Operating Expenses and Taxes	<u>294,010</u>
Operating Income (Loss)	<u>31,708</u>
Other Income and Deductions:	
Interest and dividend income	2
Other non-operating income (expense)	<u>(43)</u>
Total Other Income and Deductions	<u>(41)</u>
Income (Loss) Before Interest Charges	<u>31,667</u>
Interest Charges:	
Interest on long term debt	34,175
Interest on short term debt and other	<u>852</u>
Total Interest Charges	<u>35,027</u>
Net Income (Loss)	<u><u>\$ (3,360)</u></u>

See Accompanying Notes and Accountant's Compilation Report

HAWAIIAN BEACHES WATER COMPANY, INC.  
 STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
 FOR THE SIX MONTHS ENDED JUNE 30, 2009

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 Exhibit HBWC 2, Schedule 5  
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 (6-months ending June 30, 2009)  
 Page 6 of 16

	Common Stock	Additional Paid-In Capital	(Deficit)	Total Stockholders' Equity(Deficit)
Balances, January 1, 2009	\$ -	\$ 221,225	\$ (346,473)	\$ (125,248)
Additional Paid in Capital	-	-	-	-
Net Income (loss)	-	-	(3,360)	(3,360)
Acquisition Adjustment, (Note 7)	-	-	-	-
Balances, June 30, 2009	<u>\$ -</u>	<u>\$ 221,225</u>	<u>\$ (349,833)</u>	<u>\$ (128,608)</u>

See Accompanying Notes and Accountant's Compilation Report

HAWAIIAN BEACHES WATER COMPANY, INC.  
STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009

Application Filed July 17, 2009  
Exhibit HBWC 2, Schedule 5  
Unaudited Financial Statements  
(6-months ending June 30, 2009)  
Page 7 of 16

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income (loss)	\$ (3,360)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:	
Depreciation	25,742
Decrease (increase) in receivables	31,162
Decrease (increase) in material and supplies	-
Decrease (increase) in deferred charges	22,109
Increase (decrease) in accounts payable	22,150
Increase (decrease) in accrued expenses	(7,495)
Increase (decrease) in customer deposits	<u>3,063</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 93,371

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures	<u>(133,848)</u>
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NET CASH FLOWS USED FOR INVESTING  
ACTIVITIES (133,848)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds of contributions in aid of construction	-
Proceeds of Additional Paid in Capital	-
Repayments of long term debt	(5,633)
Proceeds of long term debt	110,220
Acquisition Adjustment	<u>-</u>

NET CASH FLOWS PROVIDED BY FINANCING  
ACTIVITIES 104,587

NET INCREASE (DECREASE) IN CASH 64,110

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 8,156

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 72,266

SUPPLEMENTAL DISCLOSURE OF  
CASH FLOW INFORMATION:

Interest paid	<u><u>\$ 35,027</u></u>
---------------	-------------------------

Note 1: SIGNIFICANT ACCOUNTING POLICIES:

General

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Reservoirs and tanks	449,143
Mains	55,083
Meters & services	412,116
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Transportation equipment	<u>59,112</u>
	1,816,623
Less: Accumulated depreciation	<u>(283,567)</u>
Utility plant in service, net	<u>\$ 1,533,056</u>

Total depreciation expense for the six months ended June 30, 2009, was \$23,980.

Note 3: DEFERRED CHARGES:

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Amortized 1/1/08 to 12/31/08	(44,218)
Amortized 1/1/09 to 6/30/09	<u>(22,109)</u>
Unamortized balance 6/30/09	<u>\$ -</u>
To be amortized in 2009	\$ 22,109

Note 4: LONG-TERM DEBT:

Bank of Hawaii Loan

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On June 6, 2007, the Company entered into a loan agreement with the Bank of Hawaii to borrow a total of \$1,001,867 through two loans. The first loan is known as "Facility I" and is for a total of \$589,334. The second loan is known as "Facility II" and is in the amount of \$412,533. Once the system improvements are completed, Facility II loan will be refinanced through HEDCO (a Hawaii non-profit corporation that assists small businesses in rural areas). This refinance is expected to occur in September 2009. The provision of the notes states that the Company will draw funds when needed for construction. The interest rate on both loans is variable and is based on the Federal Home Loan Bank of Seattle fixed rate (currently 5%) plus 2% (currently 7%). When the well project is complete the loan will be amortized over 10 years.

Installment Contracts – Saddleback Loan Company

On May 8, 2007, the Company entered into a leasing agreement with the Saddleback Loan Company to refinance two vehicles acquired from Miller & Lieb Water Company. Pursuant to FASB No. 13, the lease is treated as a capital lease. The term of the lease was originally for 42 months and as of June 30, 2009, 19 payments of \$919.72 remain on the lease. The balance due, net of interest, was \$16,495. Interest on this agreement is 7% per annum. As of June 30, 2009, the collateral for the lease obligation is a 2003 Ford Explorer and a 2006 Nissan Titan Truck.

Note 4: LONG-TERM DEBT: (Continued)

Balonne Plains Pty. Ltd. - Note

In connection with the acquisition of the assets and operations of Miller & Lieb Water Company, the Company assumed a liability due to Balonne Plains Pty Ltd., an Australian corporation ("Balonne"). Beginning in 2005, Balonne made numerous advances to cover working capital needs of Miller & Lieb Water Company and to sustain its operations. On September 1, 2007, the advances were combined into an unsecured promissory note in the amount of \$489,425. On January 21, 2009, there was an additional \$19,975 added to this note. On June 26, 2009, there was an additional \$79,975 added to this note. The balance on June 30, 2009, for the unsecured promissory note is \$589,375. The note calls for interest only payments for 36 months at a rate of 8.7%. Monthly interest payments are \$3,548.33. After 36 months, on September 1, 2010, payments shall increase to \$6,000 per month. The final payment is scheduled to be paid on October 1, 2020. Balonne Plains Pty Ltd. is owned by the father of the shareholders of the Company.

The loans and installment contract balances at June 30, 2009 were as follows:

Installment contracts - vehicles	\$ 16,495
Bank of Hawaii (Facility I)	589,334
Bank of Hawaii (Facility II)	412,533
Balonne Plains Pty Ltd.	589,375
	<u>\$ 1,607,737</u>

Future long-term debt maturities are as follows:

	Capital <u>Lease</u>	Unsecured <u>Loan</u>	<u>Facility I</u>	<u>Facility II</u>	<u>Total</u>
December 31, 2009	\$ 5,866	\$ -	\$ 13,739	\$ 9,617	\$ 29,222
December 31, 2010	10,629	13,540	43,189	30,232	97,590
December 31, 2011	-	31,848	46,311	32,417	110,576
December 31, 2012	-	34,732	49,658	34,761	119,151
December 31, 2013	-	37,877	53,248	37,274	128,399
Later years	-	471,378	383,189	268,232	1,122,799
	<u>\$ 16,495</u>	<u>\$ 589,375</u>	<u>\$ 589,334</u>	<u>\$ 412,533</u>	<u>\$ 1,607,737</u>

Note 5: INCOME TAXES:

The income tax provision is comprised of the following:

Current federal	\$ -
Current state	-
Deferred	-
	<hr/>
Total Income Tax Expense	<u>\$ -</u>
	<hr/>
Income taxes included in operating expenses	-
Income taxes included in other income	-
	<hr/>
Total Income Tax Expense	<u>\$ -</u>
	<hr/>

The income tax effect of income and expense transactions are included in each year's statement of income, regardless of the year the transactions are reported for income tax purposes. Deferred income taxes result from timing differences in the recognition of these income and expense items for tax and financial statement purposes.

The components of deferred income tax assets (liabilities) are as follows:

Deferred Income Tax Assets (Liabilities):

Current:

Net operating loss	\$ -
Other	-
	<hr/>
	-
	<hr/>

Noncurrent:

Excess tax over book depreciation	-
Taxable contributions in aid of construction	-
Net operating loss	-
Other	-
	<hr/>
	-
	<hr/>

Total Deferred Income Taxes	<u>\$ -</u>
	<hr/>

At June 30, 2009, the Company had approximately \$189,000 of net operating loss carryovers expiring in the years 2028.

Note 5: INCOME TAXES: (continued)

A reconciliation of the differences between actual income tax expense and the amount computed by applying the statutory federal income tax rate at 34% to pretax income is as follows:

Computed statutory federal income tax	\$	-
State income taxes, net of federal benefit		-
Investment tax credits		-
Nondeductible amounts and other		-
		<hr/>
Total Income Tax Expense	\$	<hr/> -

Note 6: RELATED PARTY TRANSACTIONS:

As explained in Note 4, the Company has assumed the obligation to repay working capital loans from an entity owned by the father of its shareholders.

The Company has borrowed additional amounts from the entity owned by the father of its shareholders as described in Note 4. The loans, amounting to \$589,375 at June 30, 2009, are due within ten years at interest rates of 8.7%. Total interest expense related to these loans amounted to \$21,290 for the six months ended June 30, 2009.

The Company employs both of its shareholders; one as President and manager of the Company and the other is employed as field manager. Total salary expense for these services amounted to \$63,900 for the six months ended June 30, 2009.

Note 7: ACQUISITION ADJUSTMENT:

On March 21, 2007 the Hawaii Public Utilities Commission issued decision and order no. 23313 which gave Hawaiian Beaches Water Company, Inc., approval and authority to acquire the assets and operations of Miller & Lieb Water Company. On April 1, 2007 pursuant to the transfer of assets, the company also acquired existing liabilities of Miller & Lieb Water Company which resulted in liabilities exceeding assets. Therefore an acquisition adjustment account was created to recognize the acquisition cost of the assets above and beyond the original book value of the existing assets. Due to the nature of the regulatory process and related rate making rules, the acquisition adjustment as described above has no future value and was immediately charged to retained earnings at the time of the transfer.

SUPPLEMENTARY INFORMATION

SCHEDULE 1 - OPERATING EXPENSES

601 Employee Wages	\$ 42,756
603 Officer Wages	63,900
604 Employee Benefits	14,079
610 Purchased Water	-
615 Purchased Power	58,606
618 Chemicals	774
620 Materials & Supplies	-
Less: Capitalized to CWIP	(3,364)
TOTAL - OPERATING EXPENSES	<u>\$ 176,751</u>

SCHEDULE 2 - GENERAL AND ADMINISTRATIVE EXPENSE

632 Contract Services - Accounting	\$ 2,629
633 Contract Services - Legal	408
636 Contract Services - Other	310
642 Rental of Equipment	-
650 Transportation Expense	6,457
657 Insurance - General Liability	15,093
658 Insurance - Workers Compensation	1,408
659 Insurance - Other	5,698
666 Regulatory Commission Exp - Amort of Rate Case Expense	22,109
670 Bad Debt Expense	135
675 Misc Expense - Repair & Maintenance	100
675 Misc Expense - Bank Service Charges	5,253
675 Misc Expense - Classes	1,515
675 Misc Expense - Data Processing/ Billing	1,178
675 Misc Expense - Dues & Professional Fees	332
675 Misc Expense - Office Expense	2,049
675 Misc Expense - Permits	-
675 Misc Expense - Service & Repair	-
675 Misc Expense - Notice To Customers	242
675 Misc Expense - Postage	2,943
675 Misc Expense - Outside Services	-
675 Misc Expense - Electricity	1,413
675 Misc Expense - Telephone	2,744
675 Misc Expense - Ans. Service & Pager	70
675 Misc Expense - Other	543
Less: Capitalized to CWIP	(1,345)
TOTAL - GENERAL AND ADMINISTRATIVE EXPENSE	<u>\$ 71,284</u>

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 2**

**SCHEDULE 6**

**PROMISSORY NOTES, BONDS AND  
OTHER INDEBTEDNESS**

**( 1 Page )**



**Hawaiian Beaches Water Company**

**Promissory Notes, Bonds and Other Indebtedness\***

**June 30, 2009**

<b>1.</b>	<b>Bank of Hawaii</b>	<b>\$589,334</b>
<b>2.</b>	<b>HEDCO</b>	<b>\$412,533</b>
<b>3.</b>	<b>Saddleback Loan Company</b>	<b>\$ 14,586</b>

**HBWC has no bonds authorized and issued.**

**\* Please refer to Note 4 of the Financial Statements dated June 30, 2009 (Exhibit HBWC 2, Schedule 5 at page 11) for a detailed description of the above notes and/or indebtedness.**

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 3**

**PLANT AND ACCUMULATED  
DEPRECIATION**

**( 2 Pages )**

Hawaiian Beaches Water Company, Inc.  
Test Year Ended December 31, 2010

Exhibit HBWC 3  
Application Filed July 17, 2009  
Witness O'Brien  
Page 1 of 2

Plant and Accumulated Depreciation

		[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]
Line		Balance	Year Ended 12-31-09		Balance
#	Description	At		Retirements	At
		12/31/08	Additions	or Adjustment	12/31/09
<b><u>PLANT IN SERVICE</u></b>					
1	Structures	\$ 6,431			\$ 6,431
2	Wells	-	697,055		697,055
3	Pumping Equipment	97,480			97,480
4	Water Treatment Equipment	26,046	-		26,046
5	Reservoirs & Tanks	-	456,389		456,389
6	Mains	55,083			55,083
7	Meters and Services	386,671	50,000		436,671
8	Office & Shop Equipment	24,449	15,000		39,449
9	Transportation Equipment	59,112			59,112
10	TOTAL	<u>\$ 655,272</u>	<u>\$ 1,218,444</u>	<u>\$ -</u>	<u>\$ 1,873,716</u>

**ACCUMULATED DEPRECIATION**

1	Structures	\$ 3,611	\$ 58		\$ 3,669
2	Wells	35	17,426		17,461
3	Pumping Equipment	69,453	9,748		79,201
4	Water Treatment Equipment	25,930	8		25,938
5	Reservoirs & Tanks	-	11,410		11,410
6	Mains	40,241	1,102		41,343
7	Meters and Services	77,812	27,459		105,271
8	Office & Shop Equipment	40,289	4,906		45,195
9	Transportation Equipment	453	11,823		12,276
10	TOTAL	<u>\$ 257,824</u>	<u>\$ 83,940</u>	<u>\$ -</u>	<u>\$ 341,764</u>

Hawaiian Beaches Water Company, Inc.  
Test Year Ended December 31, 2010

Exhibit HBWC 3  
Application Filed July 17, 2009  
Witness O'Brien  
Page 2 of 2

Plant and Accumulated Depreciation

		[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]
Line		Balance	Year Ended 6-30-10		Balance
#	Description	At		Retirements	At
		12/31/09	Additions	or Adjustment	06/30/10
<b><u>PLANT IN SERVICE</u></b>					
1	Structures	\$ 6,431			\$ 6,431
2	Wells	697,055			697,055
3	Pumping Equipment	97,480			97,480
4	Water Treatment Equipment	26,046			26,046
5	Reservoirs & Tanks	456,389			456,389
6	Mains	55,083			55,083
7	Meters and Services	436,671	35,263		471,934
8	Office & Shop Equipment	39,449	7,000		46,449
9	Transportation Equipment	59,112			59,112
10	TOTAL	<u>\$ 1,873,716</u>	<u>\$ 42,263</u>	<u>\$ -</u>	<u>\$ 1,915,979</u>

**ACCUMULATED DEPRECIATION**

1	Structures	\$ 3,669	\$ 58		\$ 3,727
2	Wells	17,461	34,853		52,314
3	Pumping Equipment	79,201	9,748		88,949
4	Water Treatment Equipment	25,938	8		25,946
5	Reservoirs & Tanks	11,410	22,819		34,229
6	Mains	41,343	1,102		42,445
7	Meters and Services	105,271	30,302		135,573
8	Office & Shop Equipment	45,195	7,524		52,719
9	Transportation Equipment	12,276	11,823		24,099
10	TOTAL	<u>\$ 341,764</u>	<u>\$ 118,237</u>	<u>\$ -</u>	<u>\$ 460,001</u>

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 4**

**PRESENT RATE SCHEDULE**

**( 2 Pages )**

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**PRESENT RATE SCHEDULE**

**PRESENT GENERAL USE RATES**

I. Non-Recurring Charges:

- I-A New Water Service Connection Charge.....\$1,500 per connection  
This charge shall be collected from each new customer requesting service at a location where no meter is installed, prior to receiving service. This charge shall be made only once per location where water service is requested. These amounts shall be recorded as Contributions-in-aid-of-Construction
- I-B Voluntary Disconnect and Reconnection Charge.....\$260.00 per request  
This charge shall be applied in each instance where an existing customer requests a temporary suspension of water service for a period of longer than one-month. The purpose of this charge is to compensate the Company for revenue lost by temporary disconnections normally lasting several months while the customer is not at the premises. The charge also includes a charge for the cost of the actual meter shut-off and subsequent turn-on.
- I-C Involuntary Disconnect and Reconnection Charge.....\$60.00 per instance  
This charge shall be applied in each instance where a customer's service has been disconnected for non-payment or other violation of the Company's Rules and Regulations. The purpose of this charge is to recover the cost of the actual meter shut-off and subsequent turn-on.
- I-D Return Check Fee.....\$30.00 plus bank charge to Company  
This charge shall be made for each check provided to the Company by a customer or potential customer in payment of services that is returned to the Company by the bank. This charge is designed to reimburse the Company for its internal costs of processing these returned checks and also for the charge to the Company from the bank for the processing of the returned check. As of October 31, 2006, this returned check bank charge to the Company is \$20.00.

II. Recurring Charges:

II-A Water Service Charge.....\$48.06 per month

II-B Electric Power Adjustment Clause

The above rate is based on an electric power cost of \$0.7604 per thousand gallons. When the electric power cost is more or less than \$0.7604 per thousand gallons, there shall be a corresponding increase or decrease in the above rate. The adjustment shall be applied to an average consumption of 17,000 gallons per customer on the subsequent monthly billing.

The electric power cost shall be calculated each month by the following formula:

$$\frac{\text{Monthly Electric Power Cost}}{\text{Monthly Volume Pump in Thousand Gallons} \times 90\%}$$

Revised Effective \_\_\_\_\_

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 5**

**PROPOSED RATE SCHEDULE**

**( 2 Pages )**



**MILLER & LIEB WATER COMPANY, INC.**

**PROPOSED RATE SCHEDULE**

**PROPOSED GENERAL USE RATES**

**I. Non-Recurring Charges:**

- I-A New Water Service Connection Charge.....\$1,500 per connection  
This charge shall be collected from each new customer requesting service at a location where no meter is installed, prior to receiving service. This charge shall be made only once per location where water service is requested. These amounts shall be recorded as Contributions-in-aid-of-Construction
- I-B Voluntary Disconnect and Reconnection Charge.....\$260.00 per request  
This charge shall be applied in each instance where an existing customer requests a temporary suspension of water service for a period of longer than one-month. The purpose of this charge is to compensate the Company for revenue lost by temporary disconnections normally lasting several months while the customer is not at the premises. The charge also includes a charge for the cost of the actual meter shut-off and subsequent turn-on.
- I-C Involuntary Disconnect and Reconnection Charge.....\$90.00 per instance  
This charge shall be applied in each instance where a customer's service has been disconnected for non-payment or other violation of the Company's Rules and Regulations. The purpose of this charge is to recover the cost of the actual meter shut-off and subsequent turn-on.
- I-D Return Check Fee.....\$30.00 plus bank charge to Company  
This charge shall be made for each check provided to the Company by a customer or potential customer in payment of services that is returned to the Company by the bank. This charge is designed to reimburse the Company for its internal costs of processing these returned checks and also for the charge to the Company from the bank for the processing of the returned check. As of October 31, 2006, this returned check bank charge to the Company is \$20.00.

II. Recurring Charges:

II-A Monthly Water Service Charge.....\$30.00 per month

II-B Water Usage Charge per Thousand Gallons.....\$5.7818 [ a ]

[ a ] This charge shall be effective upon Commission approval and shall be based on an Automatic Power Cost Adjustment Clause ("APCAC") base rate of \$0.2900 per kilowatt hour ("kWh").

II-C Automatic Power Cost Adjustment Clause

The above Water Usage rate is based on an electric power cost per kWh of \$0.2900. When the electric power cost is more or less than \$0.2900 per kWh, there shall be a corresponding increase or decrease in monthly water usage charges to customers. The adjustment shall be calculated and included on customers, bills monthly.

Revised Effective \_\_\_\_\_

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 6**

**TEST YEAR ENDED DECEMBER 31, 2010**

**RATE OF RETURN SUMMARY AT  
PRESENT AND PROPOSED RATES**

**( 2 Pages )**

Hawaiian Beaches Water Company  
Revenue Requirements & Rate of Return Summary  
Test Year Ending December 31, 2010

Line #	Description	[ 1 ] Present Rates	[ 2 ] Additional Amount	[ 3 ] Revenue At Proposed Rates
1	Flat Rate Month Charges	\$636,132	(\$636,132)	
2	APCAC Revenue	0		0
3	Monthly Customer Charges	0	397,080	397,080
4	Customer Usage Charges	0	549,354	549,354
5				0
6	Other Revenue	3,000		3,000
7	Total Operating Revenues	639,132	310,302	949,434
8	Purchased Electricity	104,400		104,400
9	Salaries & Wages	228,032		228,032
10	Employee Benefits & PR Taxes	57,391		57,391
11	Accounting	14,000		14,000
12	Insurance	31,604		31,604
13	Auto & Truck Expense	15,000		15,000
14	Postage	6,000		6,000
15	Legal & Professional	2,000		2,000
16	Communications	6,400		6,400
17	Office Supplies Expense	23,400		23,400
18	Rate Case Amortization	96,000		96,000
19	Repair & Maintenance	4,400		4,400
20	Bad Debt Expense	0		0
21	Capitalized Non-Payroll Expenses	(4,000)		(4,000)
22				
23	Total O&M Expenses	584,627	0	584,627
24	Taxes Other than Income Taxes	40,809	19,813	60,621
25	Depreciation	118,237		118,237
26	Amortization of CIAC	(5,703)		(5,703)
27	Income Taxes	(24,893)	89,607	64,714
28				
29	Total Operating Expenses	713,077	109,420	822,497
30	Operating Income	(\$73,945)	\$200,882	\$126,937
31	Average Rate Base	\$1,410,016	\$0	\$1,410,016
32	Return on Rate Base	-5.24%		9.000%
33	Target Rate of Return (ROR)	9.00%		
34	Increase in ROR	14.24%		
35	Increase in Net Operating Income	\$200,846		
36	Gross Revenue Conversion Factor	1.54500		
37	Revenue Increase	\$310,308		
38	Percent Revenue Increase		48.551%	

Hawaiian Beaches Water Company  
Revenue Requirements Support  
Test Year Ending December 31, 2010

Line #	Description	[1] Amount	[2] Amount	[3] Amount	[4] Amount	[5] Amount
1	Gross Revenue Factor					
2	Additional Revenue		1.000000			
3	Less:					
4	Bad Debts	0.000000				
5	Public Service Company tax	0.058850				
6	PUC Fee	0.005000				
7	Franchise	0.000000	0.063850			
8	Subject to Income Tax					
9	Less:		0.936150			
10	State Income Tax	0.057479				
11	Federal Income Tax	0.280186				
12		0.337665	0.316105			
13	Remaining for Net Income		0.620045			
14	Expense for each \$1 of Revenue		0.379955			
15	Factor for Moving Rate Base					
16	= (1-Bad Debt%-Revenue Taxes-Income tax on Addl. Revenue)					
17		0.6200449103				
18	Revenue Factor	1.612786402				
<u>Additional Revenue Requirements</u>						
19	CA's proposed rate of return				9.00%	
20	Multiply rate base @ present rates by the above proposed ROR				126,901	
21	Subtract the net income @ present rates from the above net income				200,846	
22	Divide the above difference by the moving rate base factor to					
23	determine the additional revenue requirements @ the CA's ROR				323,922	
24	Multiply the add'l revenues by the bad debt factor				0	
25	Multiply the add'l revenues by the revenue tax factor				20682	
26	Multiply the add'l revenues by the inc tax on add'l revenue				102393	
27	Total Expenses at Proposed Rates				822,497	
28	Subtract total expense from total revenues @ proposed rates				126,937	
29	Subtract NI before WC change from NI after WC change				36	
30	Divide change in NI by desired rate of return					
31	Calculate change in rate base				1,410,016	
32	Test - Divide NI by rate base				9.00%	
33	Total Base Rate Increase	RR L 39	\$310,308		\$310,302	\$6
34	Revenue At Present Rates	RR L 1		\$636,132		
35	Revenue Increase Required	RR L 39		310,308		
36	Total TY Revenue Requirement	L 34 + L 35		946,440		
37	Proposed Monthly Charges	Exh HBWC 11		397,080		
38	Proposed Revenue From Usage Charges	L 36 - L 37			\$549,360	
39	Total TY Water Sales in 000 gallons	Exh HBWC 11	7,918	x 12 =	95,016	
40	Rate per 000 gallons	L 38 / L 39				\$5.7818
41	Percent Increase	L 35 / L 34			48.779%	

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 7**

**PRO FORMA INCOME TAX EXPENSE**

( 1 Page )

Hawaiian Beaches Water Company  
Income Tax Expense  
Test Year Ending December 31, 2010

Line #	Description	[1] Tax Rates	[2] Present Rates	[3] Taxable Amounts Revenue Increase	[4] Proposed Rates	[5] Present Rates	[6] Income Taxes Revenue Increase	[7] Proposed Rates	[8] Difference in Income Tax Calculations [5] + [6] - [7]
1	Total Revenues					639,132	310,302	949,434	
2	Total Operations & Maintenance Expenses					584,627	0	584,627	
3	Depreciation					118,237	0	118,237	
4	Amortization of CIAC					(5,703)	0	(5,703)	
5	Taxes Other than Income Taxes					40,809	19,813	60,621	
6	Total Operating Expenses					737,970	19,813	757,783	
7	Operating Income before Income Taxes					(98,838)	290,489	191,651	
8	Interest Expenses					0	0	0	
9	State taxable Income					(98,838)	290,489	191,651	
10	State income Tax								
11	less than \$25K	4.4%	25,000	25,000	25,000	(1,100)	1,100	1,100	
12	Over \$25K, but less than \$100K	5.4%	75,000	75,000	75,000	(4,050)	4,050	4,050	
13	Over \$100K	6.4%		190,489	91,651	74	12,191	5,866	
14	State Income Taxes					(5,076)	17,341	11,016	1,249
15	Federal taxable income					(93,762)	273,148	180,635	
16	Federal income tax								
17	less than \$50K	15.0%	50,000	50,000	50,000	(7,500)	7,500	7,500	
18	Over \$50K, but less than \$75K	25.0%	25,000	25,000	25,000	(6,250)	6,250	6,250	
19	Over \$75K, but less than \$100K	34.0%	25,000	25,000	25,000	(8,500)	8,500	8,500	
20	Over \$100K, but less than \$335K	39.0%	235,000	173,148	80,635	2,433	67,528	31,448	
21	Over \$335K	34.0%				0	0	0	
22	Federal income Taxes					(19,817)	89,778	53,698	16,263
23	Total Federal and State income taxes					(\$24,893)	\$107,119	\$64,714	\$17,512
24	Effective Tax Rate					25.1856%	36.8754%	33.7665%	
25	State					5.135%	5.970%	5.7479%	
26	Federal					20.050%	30.906%	28.0186%	

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 8**

**PRO FORMA TAXES OTHER  
THAN INCOME TAX EXPENSE**

( 1 Page )



Hawaiian Beaches Water Company  
Taxes Other Than Income Taxes  
Test Year Ending December 31, 2010

Line #	Description	[ 1 ] Revenues at Present Rates	[ 2 ] Revenues at Proposed Rates	[ 3 ] Tax Rates	[ 4 ] Taxes at Present Rates	[ 5 ] Taxes at Proposed Rates
<u>Revenue Taxes</u>						
1	Public Service Company Tax					
2	(Pursuant to HRS § 239)	\$639,132	\$949,434	5.885%	\$37,613	\$55,874
3	Public Utility Fee					
4	(Pursuant to HRS § 269-30)	639,132	949,434	0.500%	3,196	4,747
5	Franchise Tax (applicable to electric companies only)			2.500%		
6	(Pursuant to HRS § 240)					
7	Total Revenue Taxes				40,809	60,621
<u>Other Taxes</u>						
8	Other Taxes					0
9	Total Other Taxes				0	0
10	Total Taxes Other Than Income Taxes				40,809	60,621

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 9**

**PRO FORMA RATE BASE**

**( 10 Pages )**

Hawaiian Beaches Water Company  
Average Rate Base  
Test Year Ending December 31, 2010

		[ 1 ]	[ 2 ]	[ 3 ]
Line #	Description	At Dec. 31, 2009	At Dec. 31, 2010	Average
1	Plant In Service	\$1,873,716	\$1,915,979	\$1,894,848
2	Accumulated Depreciation	(341,764)	(460,001)	(400,883)
3	Net Plant-in-Service	1,531,952	1,455,978	1,493,965
Deduct:				
4	Accumulated Deferred Income Taxes	(26,806)	(27,401)	(27,104)
5				
6	HCGETC	(21,279)	(20,610)	(20,944)
7	Customer Deposits	(11,462)	(11,462)	(11,462)
8	CIAC	(73,009)	(73,307)	(73,158)
9	subtotal	(132,557)	(132,779)	(132,668)
Add:				
10	Working Cash	48,719	48,719	48,719
11		0	0	0
12	subtotal	48,719	48,719	48,719
13	Subtotal	\$1,448,114	\$1,371,917	
14	Rate Base at Proposed Rates			\$1,410,016

Hawaiian Beaches Water Company  
Rate Base Support  
Test Year Ending December 31, 2010

<u>Rate Base @ Dec. 31, 2009</u>		[ 1 ]	[ 2 ]	[ 3 ]
Line #	Description	HBWC	Adjustments	Total
1	Plant In Service	\$1,873,716		\$1,873,716
2	Accumulated Depreciation	(341,764)		(341,764)
3	Net Plant-in-Service	1,531,952	0	1,531,952
Deduct:				
4				
5	Accumulated Deferred Income Taxes	(26,806)		(26,806)
6				
7	HCGETC	(21,279)		(21,279)
8	Customer Deposits	(11,462)		(11,462)
9	CIAC	(73,009)		(73,009)
10	subtotal	(132,557)	0	(132,557)
Add:				
11	Working Cash	48,719		48,719
12				0
13				
14				
15	subtotal	\$48,719	\$0	\$48,719

Rate Base @ Dec. 31, 2010

	Description	HBWC	Adjustments	Total
16	Plant In Service	\$1,915,979		\$1,915,979
17	Accumulated Depreciation	(460,001)		(460,001)
18	Net Plant-in-Service	1,455,978	0	1,455,978
Deduct:				
19				
20	Accumulated Deferred Income Taxes	(27,401)		(27,401)
21				
22	HCGETC	(20,610)		(20,610)
23	Customer Deposits	(11,462)		(11,462)
24	CIAC	(73,307)		(73,307)
25	subtotal	(132,779)	0	(132,779)
Add:				
26	Working Cash	48,719		48,719
27				0
28				
29				
30	subtotal	\$48,719	\$0	\$48,719

Hawaiian Beaches Water Company  
Plant In Service  
Test Year Ending December 31, 2010

Line #	Description	[1] Year Acquired	[2] Asset Life	[3] Balance as of 12/31/08	[4] 12/31/09 Additions	[5] 12/31/09 Retirements	[6] Adjustments	[7] Balance as of 12/31/09	[8] 12/31/10 Additions	[9] 12/31/10 Retirements	[10] Adjustments	[11] Test Year Balance as of 12/31/10
1	Structures	2007 & Prior		\$3,512				3,512				3,512
2	Structures	2008		2,919				2,919				2,919
3	Structures	2009						0				0
4	Wells	2009			697,055			697,055				697,055
5	Pumping Equipment	2007 & Prior						97,480				97,480
6	Pumping Equipment	2009		97,480				0				0
7	Pumping Equipment	2010						0				0
8	Water Treatment Equipment	2007 & Prior		25,626				25,626				25,626
9	Water Treatment Equipment	2008		420				420				420
10	Water Treatment Equipment	2009						0				0
11	Water Treatment Equipment	2010						0				0
12	Reservoirs & Tanks	2010			456,389			456,389				456,389
13	Mains	2007 & Prior		55,083				55,083				55,083
14	Meters & Services	2007 & Prior		176,464				176,464				176,464
15	Meters & Services	2008		210,208				210,208				210,208
16	Meters & Services	2009			50,000			50,000				50,000
17	Meters & Services	2010						0	35,263			35,263
18	Office & Shop Equipment	2007 & Prior		19,763				19,763				19,763
19	Office & Shop Equipment	2008		152				152				152
20	Office & Shop Equipment	2009			5,000			5,000				5,000
21	Office & Shop Equipment	2010						0	5,000			5,000
22	Transportation Equipment	2007 & Prior		52,613				52,613				52,613
23	Transportation Equipment	2008		6,500				6,500				6,500
24	Transportation Equipment	2009						0				0
25	Transportation Equipment	2010						0				0
26	Other Equipment	2008		4,532				4,532				4,532
27	Computer & Control Equip	2009			10,000			10,000				10,000
28	Other Equipment	2010						0	2,000			2,000
29	Total Plant in Service			\$655,272	\$1,218,444	\$0	\$0	\$1,873,716	\$42,263	\$0	\$0	\$1,915,979

Hawaiian Beaches Water Company  
Accumulated Depreciation  
Test Year Ending December 31, 2010

Line #	Description	{ 1 } Year Acquired	{ 2 } Asset Balance At 12/10	{ 3 } Balance as of 12/31/08	{ 4 } 12/31/09 Dep. Exp.	{ 5 } 12/31/09 Retirements	{ 6 } 12/31/09 Adjustments	{ 7 } Balance as of 12/31/09	{ 8 } 12/31/10 Dep. Exp.	{ 9 } 12/31/10 Retirements	{ 10 } Adjustments	{ 11 } Test Year Balance as of 12/31/10
1	Structures	2007 & Prior	3,512	(\$3,512)	\$0			(3,512)	\$0			(3,512)
2	Structures	2008	2,919	(\$99)	(58)			(98)	(58)			(98)
3	Structures	2009	0		0			(58)	0			(116)
4	Wells	2009	697,055	(35)	(17,426)			(17,461)	(34,853)			(52,314)
5	Pumping Equipment	2007 & Prior	97,480	(69,453)	(9,748)			(79,201)	(9,748)			(88,949)
6	Pumping Equipment	2009			0			0	0			0
7	Pumping Equipment	2010	0		0			0	0			0
8	Water Treatment Equipment	2007 & Prior	25,626	(25,926)	0			(25,926)	0			0
9	Water Treatment Equipment	2008	420	(4)	(8)			(12)	(8)			(20)
10	Water Treatment Equipment	2009			0			0	0			0
11	Water Treatment Equipment	2010	0		0			0	0			0
12	Reservoirs & Tanks	2010	456,389		(11,410)			(11,410)	(22,819)			0
13	Mains	2007 & Prior	55,083	(40,241)	(1,102)			(41,343)	(1,102)			(42,445)
14	Meters & Services	2007 & Prior	176,464	(72,557)	(11,770)			(84,327)	(11,770)			(96,097)
15	Meters & Services	2008	210,208	(5,255)	(14,021)			(19,276)	(14,021)			(33,297)
16	Meters & Services	2009	50,000		(1,668)			(1,668)	(3,335)			(5,003)
17	Meters & Services	2010	35,263		0			0	(1,176)			(1,176)
18	Office & Shop Equipment	2007 & Prior	19,763	(7,742)	(2,824)			(10,566)	(2,824)			(13,390)
19	Office & Shop Equipment	2008	152	(11)	(22)			(33)	(22)			(55)
20	Office & Shop Equipment	2009	5,000		(357)			(357)	(715)			(1,072)
21	Office & Shop Equipment	2010	5,000		0			0	(357)			(357)
22	Transportation Equipment	2007 & Prior	52,613	(31,886)	(10,523)			(42,409)	(10,523)			(52,932)
23	Transportation Equipment	2008	6,500	(650)	(1,300)			(1,950)	(1,300)			(3,250)
24	Transportation Equipment	2009	0		0			0	0			0
25	Transportation Equipment	2010	0		0			0	0			0
26	Other Equipment	2008	4,532	(453)	(453)			(906)	(906)			(1,812)
27	Computer & Control Equip	2009	10,000		(1,250)			(1,250)	(2,500)			(3,750)
28	Other Equipment	2010	2,000		0			0	(200)			(200)
29	Total Plant in Service		\$1,915,979	(\$257,824)	(\$83,940)	\$0	\$0	(\$341,764)	(\$118,237)	\$0	\$0	(\$460,001)

Hawaiian Beaches Water Company  
Depreciation Expense (Book)  
Test Year Ending December 31, 2010

Test Year Ending December 31, 2010											
Line #	Description	Ref.	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
			In-service date	Total Cost 12/31/10	Depreciation Expense Rate	Acc. Dep. Balance as of 12/31/08	2009 Depreciation Expense	Acc. Dep. Balance as of 12/31/09	2010 Depreciation Expense	Test Year Acc. Dep. Balance as of 12/31/10	
One-Half on 2009 Additions											
One-Half on 2010 Additions											
1	Structures			2007 & Prior	\$3,512	2.00%	\$3,512		\$3,512		\$3,512
2	Structures			2008	2,919	2.00%	99	58	157	58	215
3	Structures			2009	0	2.00%	0	0	0	0	0
4	Wells			2009	697,055	5.00%	35	17,426	17,461	34,853	52,314
5	Pumping Equipment			2007 & Prior	97,480	10.00%	69,453	9,748	79,201	9,748	88,949
6	Pumping Equipment			2008	0	20.00%	0	0	0	0	0
7	Pumping Equipment			2010	0	20.00%	0	0	0	0	0
8	Water Treatment Equipment			2007 & Prior	25,926	2.00%	25,926	0	25,926	0	25,926
9	Water Treatment Equipment			2008	420	2.00%	4	8	12	8	20
10	Water Treatment Equipment			2009	0	5.00%	0	0	0	0	0
11	Water Treatment Equipment			2010	0	5.00%	0	0	0	0	0
12	Reservoirs & Tanks			2009	456,389	5.00%	0	11,410	11,410	22,819	34,229
13	Mains			2007 & Prior	55,083	2.00%	40,241	1,102	41,343	1,102	42,445
14	Meters & Services			2007 & Prior	176,464	6.67%	72,557	11,770	84,327	11,770	96,097
15	Meters & Services			2008	210,208	6.67%	5,255	14,021	19,276	14,021	33,297
16	Meters & Services			2009	50,000	6.67%	0	1,668	1,668	3,335	5,003
17	Meters & Services			2010	35,263	6.67%	0	0	0	1,176	1,176
18	Office & Shop Equipment			2007 & Prior	19,763	14.29%	7,742	2,824	10,566	2,824	13,390
19	Office & Shop Equipment			2008	152	14.29%	11	22	33	22	55
20	Office & Shop Equipment			2009	5,000	14.29%	0	357	357	715	1,072
21	Office & Shop Equipment			2010	5,000	14.29%	0	0	0	357	357
22	Transportation Equipment			2007 & Prior	52,613	20.00%	31,886	10,523	42,409	10,523	52,932
23	Transportation Equipment			2008	6,500	20.00%	650	1,300	1,950	1,300	3,250
24	Transportation Equipment			2009	0	20.00%	0	0	0	0	0
25	Transportation Equipment			2010	0	20.00%	0	0	0	0	0
26	Other Equipment			2008	4,532	20.00%	0	453	453	906	1,359
27	Computer & Control Equip			2009	10,000	25.00%	0	1,250	1,250	2,500	3,750
28	Other Equipment			2010	2,000	20.00%	0	0	0	200	200
29	Total Plant in Service				\$1,915,979		\$257,371	\$63,940	\$341,311	\$118,237	\$459,546

Hawaiian Beaches Water Company  
HCGETC  
Test Year Ending December 31, 2010

Line #	Description	[1] Depreciation Rate	[2] Plant Additions	[3] Plant Not Eligible	[4] Net Plant For HCGETC	[5] HCGETC Credits	[6] Annual Amortization of HCGETC	[7] Acc. Amort. Balance as of 12/31/08	[8] 2009 Amortization	[9] Acc. Amort. Balance as of 12/31/09	[10] 2010 Amortization	[11] Test Year Acc. Amort. Balance as of 12/31/10
				<u>70.0%</u>		<u>4.0%</u>						
<b>2008 Plant Additions</b>												
1												
2	Meters & Installations	6.67%	\$210,208	(\$147,146)	\$63,062	\$2,522	168	84	168	252	168	421
3	Total 2008					<u>\$2,522</u>						
<b>2009 Plant Additions</b>												
4	Meters & Installations	6.67%	\$50,000	(35,000)	\$15,000	600	40	20	20	20	40	60
5	Well	5.00%	\$0		\$0	0	0	0	0	0	0	0
6	Storage	5.00%	\$456,389		\$456,389	18,256	913	456	456	456	913	1,369
7	Pumping Equipment	20.00%	\$0		\$0	0	0	0	0	0	0	0
8	Water Treatment	5.00%	\$0		\$0	0	0	0	0	0	0	0
9	Office & Shop	14.29%	\$5,000		\$5,000	200	29	14	14	14	29	43
10	Other Equipment	20.00%	\$10,000		\$10,000	400	80	40	40	40	80	120
11	Total 2009					<u>19,456</u>						
<b>2010 Plant Additions</b>												
12	Meters & Installations	6.67%	\$35,263	(\$25,263)	\$10,000	400	27				13	13
13	Office & Shop	14.29%	\$5,000		\$5,000	200	29				14	14
14	Other Equipment	20.00%	\$2,000		\$2,000	80	16				8	8
15	Total 2010					<u>680</u>						
16	Total					<u>\$ 22,658</u>	<u>\$ 1,301</u>	<u>\$ 84</u>	<u>\$ 699</u>	<u>\$ 783</u>	<u>\$ 1,265</u>	<u>\$ 2,048</u>
17	Unamortized Balance at EOY							<u>\$ 2,438</u>		<u>\$ 21,279</u>		<u>\$ 20,610</u>



Hawaiian Beaches Water Company  
Accumulated Deferred Income Taxes  
Test Year Ending December 31, 2010

Line #	Description	[1] Year Acquired	[2] Asset Tax Life	[3] Total Cost At 12/31/10	[4] Depreciation Method	[5] Acc. Tax Dep. Balance as of 12/31/08	[6] Tax Depreciation 2009	[7] Adjustments 2009	[8] Acc. Tax Dep. Balance as of 12/31/09	[9] Tax Depreciation 2010	[10] Adjustments 2010	[11] Test Year Acc. Tax Dep. Balance as of 12/31/10
1	Structures	2007 & Prior		3,512		18	0		0			0
2	Structures	2008		2,919		28	0		18			18
3	Structures	2009		0		0	0		28	0		28
4	Wells	2009		697,055		0	0		0	0		0
5	Pumping Equipment	2007 & Prior		97,480		62,423	0		62,423	0		62,423
6	Pumping Equipment	2009		0		0	0		0	0		0
7												
8	Water Treatment Equipment	2007 & Prior		25,626		25,029	0		25,029	0		25,029
9	Water Treatment Equipment	2008		420		221	0		221	0		221
10	Water Treatment Equipment	2009		0		0	0		0	0		0
11	Water Treatment Equipment	2010		0		0	0		0	0		0
12	Reservoirs & Tanks	2009		456,389		0	0		0	0		0
13	Mains	2007 & Prior		55,083		38,296	0		38,296	0		38,296
14	Meters & Services	2007 & Prior		176,464		56,439	0		56,439	0		56,439
15	Meters & Services	2008		210,208		110,657	0		110,657	0		110,657
16	Meters & Services	2009		50,000		0	0		0	0		0
17	Meters & Services	2010		35,263		0	0		0	0		0
18	Office & Shop Equipment	2007 & Prior		19,763		5,074	0		5,074	0		5,074
19	Office & Shop Equipment	2008		152		80	0		80	0		80
20	Office & Shop Equipment	2009		5,000		0	0		0	0		0
21	Office & Shop Equipment	2010		5,000		0	0		0	0		0
22	Transportation Equipment	2007 & Prior		52,613		25,694	0		25,694	0		25,694
23	Transportation Equipment	2008		6,500		2,275	0		2,275	0		2,275
24	Transportation Equipment	2009		0		0	0		0	0		0
25	Transportation Equipment	2010		0		0	0		0	0		0
26	Other Equipment	2008		4,532		2,386	0		2,386	0		2,386
27	Computer & Control Equip	2009		10,000		0	0		0	0		0
28	Other Equipment	2010		2,000		0	0		0	0		0
29	Other Tax Depreciation					800	0		800	0		800
30	Needed to Balance Tax Depr At 12-31-06					0	0		0	0		0
31	Tax Depr on Plant Pre 2008					8,330	0		8,330	0		8,330
							83,401		83,401	120,000		203,401
32	TOTAL			\$1,915,979		\$337,750	\$83,401	\$0	\$421,151	\$120,000	\$0	\$541,151
33	Accumulated Book Depreciation			257,824					341,764			460,001
34	Excess Tax Over (Under) Book			79,926					79,387			81,150
35	Composite Income Tax Rate			33.767%					33.767%			33.767%
36	ADIT Balance			\$26,988					\$26,806			\$27,401

Hawaiian Beaches Water Company  
CIAC  
Test Year Ending December 31, 2010

		[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]
Line #	Description	Rate Or Factor	Amount	Total CIAC	Unamortized CIAC
1	<b><u>Balance At 12-31-08</u></b>				\$66,112
2	CIAC Prior To 12-31-08			\$70,500	
3	CIAC in 2009	\$1,500	<u>8</u>	12,000	\$12,000
4	Amortization of CIAC @ 12-08	6.7%	\$4,702		
5	Amortization of 2009 CIAC	6.7%	<u>400</u>		
6	2009 Amortization				<u>5,103</u>
7	<b><u>Balance At 12-31-09</u></b>			82,500	73,009
8	CIAC Prior To 12-31-08		<u>\$70,500</u>		
9	CIAC in 2009		<u>\$12,000</u>		
10	CIAC in 2010	\$1,500	<u>4</u>	6,000	6,000
11	Amortization of CIAC @ 12-08	6.7%	\$4,702		
12	Amortization of 2009 CIAC	6.7%	800		
13	Amortization of 2010 CIAC	6.7%	<u>200</u>		
14	2010 Amortization				<u>5,703</u>
15	<b><u>Balance At 12-31-10</u></b>			<u>\$88,500</u>	<u>\$73,307</u>

Hawaiian Beaches Water Company  
Customer Deposits  
Test Year Ending December 31, 2010

		[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]
Line #	Description	Rate Or Factor		Balance	
1	<u>Balance At 12-31-07</u>			<u>\$11,462</u>	
2	<u>Balance At 12-31-08</u>			<u>\$11,462</u>	
3	<u>Balance At 12-31-09</u>			<u>\$11,462</u>	
4	<u>Balance At 12-31-10</u>			<u>\$11,462</u>	

Hawaiian Beaches Water Company  
Working Cash  
Test Year Ending December 31, 2010

[ 1 ]

Line #	Description	Amount
1	Purchased Electricity	104,400
2	Salaries & Wages	228,032
3	Employee Benefits & PR Taxes	57,391
4	Accounting	14,000
5	Insurance	31,604
6	Auto & Truck Expense	15,000
7	Postage	6,000
8	Legal & Professional	2,000
9	Communications	6,400
10	Office Supplies Expense	23,400
11	Rate Case Amortization	96,000
12	Repair & Maintenance	4,400
13	Bad Debt Expense	0
14	Capitalized Non-Payroll Expenses	(4,000)
15		
16		
17	subtotal	584,627
18	Working Cash factor	12
19	Working Cash	48,719

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 10**

**PRO FORMA HISTORICAL SUMMARY**

**( 15 Pages )**

Hawaiian Beaches Water Company  
Historical Summary  
Test Year Ending December 31, 2010

Line #	Description	[1] 2007 Settlement	[2] Year Ended 12/31/07	[3] Year Ended 12/31/08	[4] 5-Months Ended 5/31/09	[5] 7-Months Ended 12/31/09	[6] Year Ended 12/31/09	[7] Present Rates Test Year 12/31/10
<b>Revenues</b>								
1	Service Revenue							
2	Flat Rate Month Charges	\$688,294	\$420,755	\$641,557	\$270,000	\$360,000	\$630,000	\$636,132
3								
4	APCAC Revenue							
5								
6	Monthly Customer Charges							
7								
8	Customer Usage Charges							
9	Total Usage Revenue	688,294	420,755	641,557	270,000	360,000	630,000	636,132
10	Other Revenue							
11	Finance Charges	1,000		1,000	450	550	1,000	1,000
12	Other Revenue	2,000		2,000	900	1,100	2,000	2,000
13	TOTAL WATER REVENUES	691,294	420,755	644,557	271,350	361,650	633,000	639,132
<b>Expenses</b>								
14	Purchased Electricity	184,785	147,395	185,691	45,359	89,641	135,000	104,400
15	Salaries & Wages	178,264	190,526	207,640	87,500	122,500	210,000	228,032
16	Employee Benefits & PR Taxes	38,792	26,395	25,722	13,000	17,000	30,000	57,391
17	Accounting	10,119	2,842	9,979	6,400	5,600	12,000	14,000
18	Insurance	17,658	17,064	25,867	11,375	15,925	29,340	31,604
19	Auto & Truck Expense	11,000	18,214	20,853	4,600	6,440	11,040	15,000
20	Postage	6,626	7,820	4,627	1,750	2,950	4,700	6,000
21	Legal & Professional	4,000	4,497	1,444	0	0	0	2,000
22	Communications	3,000	5,075	5,960	2,225	3,675	5,900	6,400
23	Office Supplies Expense	9,500	13,089	25,468	9,720	12,230	21,950	23,400
24	Rate Case Amortization	31,375	22,109	44,218	18,424	25,794	44,218	96,000
25	Repair & Maintenance	12,600	6,902	2,464	1,885	2,359	4,044	4,400
26	Bad Debt Expense	0	0	0	0	0	0	0
27	Capitalized Non-Payroll Expenses	0	(2,737)	(30,597)	(5,000)	(2,000)	(7,000)	(4,000)
28	Taxes Other than Income Taxes	44,139	20,247	38,126	17,326	23,091	40,417	40,809
29	Depreciation	66,047	30,076	37,154	30,000	53,940	83,940	118,237
30	Amortization of CIAC		(1,313)	(3,075)	(1,500)	(3,603)	(5,103)	(5,703)
31								
32	TOTAL EXPENSES	\$ 617,905	\$ 508,201	\$ 601,541	\$ 242,864	\$ 375,543	\$ 620,446	\$ 737,970
33	OPERATING INCOME BEFORE TAXES	\$ 73,389	\$ (87,446)	\$ 43,016	\$ 28,486	\$ (13,893)	\$ 12,554	\$ (98,836)

Hawaiian Beaches Water Company  
Salaries & Wages  
Test Year Ending December 31, 2010

Line #	Description	Ref:	[1] 2007 Settlement	[2] Year Ended 12/31/07	[3] Year Ended 12/31/08	[4] 5-Months Ended 5/31/09	[5] 7-Months Ended 12/31/09	[6] Year Ended 12/31/09	[7] Present Rates Test Year 12/31/10
<b>Salaries &amp; Wages</b>									
1	Salaried		\$110,528	\$96,640	\$127,800	\$50,000	\$70,000	\$120,000	\$127,182
2	Hourly		67,736	93,886	79,840	37,500	52,500	90,000	96,048
3	Overtime and Callout	5.0%							4,802
4	Total Payroll		<u>\$ 178,264</u>	<u>\$ 190,526</u>	<u>\$ 207,640</u>	<u>\$ 87,500</u>	<u>\$ 122,500</u>	<u>\$ 210,000</u>	<u>\$ 228,032</u>
5	Wage Increase Dates				<u>1/1/09</u>	<u>7/1/09</u>	<u>1/1/10</u>		
6	Percent Increase in base wages				<u>0.000%</u>	<u>3.000%</u>	<u>3.000%</u>		
7	Total for 6 employees from Workpaper HBWC 10.1								\$244,493
8	Charged to Construction	WP 10.1	Salaried					15.0%	(8,402)
9	Charged to Construction	WP 10.1	Hourly					15.0%	(12,861)
10	Overtime & Callout	L 3	Hourly						4,802
10	Total Test Year Expense								<u>\$228,032</u>

Hawaiian Beaches Water Company  
Employee Benefits & PR Taxes  
Test Year Ending December 31, 2010

		[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]	[ 6 ]	[ 7 ]
Line #	Description	2007 # 2006-0442	Year Ended 12/31/07	Year Ended 12/31/08	5-Months Ended 5/31/09	7-Months Ended 12/31/09	Year Ended 12/31/09	Present Rates Test Year 12/31/10
1	Total Expense		\$38,792	\$26,395	\$25,722	\$13,000	\$17,000	\$30,000
2	Test Year Expense							\$ 57,391
				# of Empl				
<b>FICA TAX EXPENSE</b>								
3	Total Test Year S & W				\$ 228,032			
4	Test Year S & W over Maximum				0			
5	Taxable Test Year S & W	L 3 - L 4			\$ 228,032			
6	Tax Rate					7.650%		
7	Test Year FICA Taxes						\$ 17,444	
<b>FEDERAL UNEMPLOYMENT INSURANCE</b>								
8	Total Test Year S & W				\$ 228,032			
9	Test Year S & W over Maximum		\$ 7,000		(186,032)			
10	Taxable Test Year S & W	L 8 + L 9			\$ 42,000			
11	Tax Rate			6		0.800%		
12	Test Year FUI Taxes						336	
<b>STATE UNEMPLOYMENT INSURANCE</b>								
13	Total Test Year S & W				\$ 228,032			
14	Test Year S & W over Maximum		\$ 4,000		(204,032)			
15	Taxable Test Year S & W	L 13 + L 14			\$ 24,000			
16	Tax Rate			6		0.400%		
17	Test Year SUI Taxes						96	
<b>TDI</b>								
18	Total Test Year S & W				\$ 228,032			
19	Test Year S & W over Maximum		\$ 3,000		(210,032)			
20	Taxable Test Year S & W	L 18 + L 19			\$ 18,000			
21	Tax Rate			6		0.460%		
22	Test Year TDI Taxes						83	
<b>EMPLOYEE BENEFITS</b>								
			Monthly Expense Per Employee		No. Of Months	Annual Cost		
23	HMSA Rate - Single Coverage	7-1-09 Rate	\$407.50	4	12	\$ 19,560		
24	HMSA Rate - 2 Party Coverage	7-1-09 Rate	\$804.80	1	12	9,658		
25	HMSA Rate - Family Coverage	7-1-09 Rate	\$1,202.10	1	12	14,425		
26	Increase At 7-1-10		7.74%		6	1,688		
27	Other							
28	TOTAL BENEFITS	Sum L 23 to L 26					45,331	
29	Sub-Total						63,290	
30	Total Benefits and PR Tax							
<b>CHARGE TO CONSTRUCTION</b>								
31	Payroll to Construction	Exh 10.1			\$21,263			
32	Total Payroll	Exh 10.1			\$ 228,032			
33	Percent Expensed	L 31 / L 32				9.32%		
34	Benefits & PR Taxes Capitalized	L 29 * L 33					\$ (5,899)	
35	TOTAL	L 29 + L 34						\$ 57,391



Hawaiian Beaches Water Company  
Purchased Electricity  
Test Year Ending December 31, 2010

	[ 1 ] 2007 # 2006-0442 Settlement	[ 2 ] Year Ended 12/31/07	[ 3 ] Year Ended 12/31/08	[ 4 ] 5-Months Ended 5/31/09	[ 5 ] 7-Months Ended 12/31/09	[ 6 ] Year Ended 12/31/09	[ 7 ] Present Rates Test Year 12/31/10
<b>Expenses</b>							
1 Electricity						\$ -	
2 Pumping	184,785	147,395	185,691	45,359	89,641	135,000	104,400
3 Administrative						0	
4 subtotal	184,785	147,395	185,691	45,359	89,641	135,000	104,400
5 Other Charges							
6 subtotal	0	0	0	0	0	0	0
7 Total Expense	\$184,785	\$147,395	\$185,691	\$45,359	\$89,641	\$135,000	\$104,400
	<u>2007</u>		<u>2008</u>		<u>2009</u>		
	<u>kWh</u>	<u>\$</u>	<u>kWh</u>	<u>\$</u>	<u>kWh</u>	<u>\$</u>	
8 Jan			44,472	\$13,743	38,143	\$12,768	
9 Feb			46,867	15,687	31,507	9,420	
10 Mar			46,691	15,851	32,390	9,022	
11 Apr			43,080	14,431	50,511	14,149	
12 May	41,331	11,320	49,254	16,302	0		
13 Jun	47,555	12,864	48,383	16,613	50,563	13,247	
14 Jul	49,112	13,718	43,411	15,879			
15 Aug	46,701	13,648	44,939	16,948			
16 Sep	54,979	15,797	42,621	16,947			
17 Oct	43,940	13,154	38,258	15,597			
18 Nov	42,015	12,760	38,258	15,287			
19 Dec	46,615	13,690	33,089	12,406			
20 Total	372,248	\$106,951	519,323	\$185,691	203,114	\$58,606	
21 Average		\$0.2873		\$0.3576		\$0.2885	
22 Average Monthly	46,531		43,277		33,852		30,000
23 Number of Months in Test Year							12
24 Pro Forma Electric Rate Per kWh							\$0.2900
25 Pro Forma Electric Expense							\$104,400

Hawaiian Beaches Water Company  
Accounting  
Test Year Ending December 31, 2010

Line #	Description	Ref:							
			[1]	[2]	[3]	[4]	[5]	[6]	[7]
			2007			5-Months Ended 5/31/09	7-Months Ended 12/31/09	Year Ended 12/31/09	Present Rates Test Year 12/31/10
			# 2006-0442	Year Ended 12/31/07	Year Ended 12/31/08				
			2007						
1	Accounting Service		\$ 10,119	\$ 2,842	\$ 9,979	\$ 6,400	\$ 5,600	\$ 12,000	\$ 14,000
2									
3									
4									
5	Total		\$ 10,119	\$ 2,842	\$ 9,979	\$ 6,400	\$ 5,600	\$ 12,000	\$ 14,000

Hawaiian Beaches Water Company  
Insurance  
Test Year Ending December 31, 2010

Line #	Description	Ref:	# 2006-0442 2007	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]	[ 6 ]	[ 7 ]
					Year Ended 12/31/07	Year Ended 12/31/08	5-Months Ended 5/31/09	7-Months Ended 12/31/09	Year Ended 12/31/09	Present Rates Test Year 12/31/10
1	Vehicle			\$3,285	\$0	\$2,947	\$1,250	\$1,750	\$3,000	\$3,024
2	General Liability			7,378	9,043	13,973	6,250	8,750	15,000	10,244
3	Pollution Liability									5,288
4	Workers Compensation			6,995	5,802	4,643	1,875	2,625	4,500	2,327
5	Property Insurance				2,219	4,304	2,000	2,800	4,800	6,800
5	Key Man Insurance								1,014 [a]	2,028
6	Boiler & Machinery								1,026 [b]	1,893
7	Total			\$17,658	\$17,064	\$25,867	\$11,375	\$15,925	\$29,340	\$31,604

[ a ] Effective 7/1/09

[ b ] Effective 6/1/09

Hawaiian Beaches Water Company  
Auto & Truck Expense  
Test Year Ending December 31, 2010

Line #	Description	Ref:	[1] 2007	[2] Year Ended 12/31/07	[3] Year Ended 12/31/08	[4] 5-Months Ended 5/31/09	[5] 7-Months Ended 12/31/09	[6] Year Ended 12/31/09	[7] Present Rates Test Year 12/31/10
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1	Total Transportation		\$11,000	\$18,214	\$20,853	\$4,600	\$6,440	\$11,040	\$15,000
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2	Transportation Capitalized								
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3	Transportation to Exenese								
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4									
---	--	--	--	--	--	--	--	--	--

5									
---	--	--	--	--	--	--	--	--	--

6									
---	--	--	--	--	--	--	--	--	--

7									
---	--	--	--	--	--	--	--	--	--

8	Total		\$11,000	\$18,214	\$20,853	\$4,600	\$6,440	\$11,040	\$15,000
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46915	46915	46915	46915		
0.2437	0.044	0.1036			
11,433	2,064	4,860	18,358		

Hawaiian Beaches Water Company  
Postage  
Test Year Ending December 31, 2010

Exhibit HBWC 10.7  
Application Filed July 17, 2009  
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Witness O'Brien

Line #	Description	[1] 2007	[2] Year Ended 12/31/07	[3] Year Ended 12/31/08	[4] 5-Months Ended 5/31/09	[5] 7-Months Ended 12/31/09	[6] Year Ended 12/31/09	[7] Present Rates Test Year 12/31/10
1	Postage	6,626	5,731	4,202	1,750	2,450	4,200	4,500
2	Customer Notices		2,089	425	0	500	500	1,500
3								
4								
5								

Total

\$6,626	\$7,820	\$4,627	\$1,750	\$2,950	\$4,700	\$6,000
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Hawaiian Beaches Water Company  
Legal & Professional  
Test Year Ending December 31, 2010

Line #	Description	Ref:	[1] 2007 # 2006-0442	[2] Year Ended 12/31/07	[3] Year Ended 12/31/08	[4] 5-Months Ended 5/31/09	[5] 7-Months Ended 12/31/09	[6] Year Ended 12/31/09	[7] Present Rates Test Year 12/31/10
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1	Legal		\$4,000	\$1,422	\$348	\$0	\$0	\$0	\$1,000
2	Professional			3,075	1,096	0	0	0	1,000
3									
4									
5									

6	Total		\$4,000	\$4,497	\$1,444	\$0	\$0	\$0	\$2,000
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Hawaiian Beaches Water Company  
Communications  
Test Year Ending December 31, 2010

Line #	Description	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]	[ 6 ]	[ 7 ]
		2007						Present Rates
		# 2006-0442	Year Ended	Year Ended	5-Months Ended	7-Months Ended	Year Ended	Test Year
		Ref: 2007	12/31/07	12/31/08	5/31/09	12/31/09	12/31/09	12/31/10
1	Telephone	\$3,000	\$4,760	\$5,213	\$2,125	\$2,975	\$5,100	\$5,500
2	Answering Service		\$315	\$747	\$100	\$700	\$800	\$900
3								
4								
5								
6		\$3,000	\$5,075	\$5,960	\$2,225	\$3,675	\$5,900	\$6,400

Hawaiian Beaches Water Company  
Office Supplies Expense  
Test Year Ending December 31, 2010

Line #	Description	Ref:	2007							Present Rates Test Year 12/31/10
			[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]	[ 6 ]	[ 7 ]	
			# 2006-0442	Year Ended 12/31/07	Year Ended 12/31/08	5-Months Ended 5/31/09	7-Months Ended 12/31/09	Year Ended 12/31/09		
1	Office Supplies & Expenses		\$9,500	\$2,986	\$3,775	\$1,500	\$2,100	\$3,600		\$4,000
2	Data Processing			2,226	2,258	875	1,225	2,100		2,300
3	Dues & Fees			1,837	787	325	455	780		900
4	Permits			275	175	100	200	300		300
5	Service & Repair			254	30	100	100	200		200
6	Office Electric			2,532	3,138	1,350	1,925	3,275		3,500
7	Bank Charges			9,734	17,371	9,000	5,000	14,000		10,000
8	Loan Document Fees - Well & Tank	[ A ]		(12,232)	(4,312)	(4,405)	0	(4,405)		0
8	Outside Services			100	0	0	0	0		0
9	Other			5,377	2,246	875	1,225	2,100		2,200
10	Total			\$13,089	\$25,468	\$9,720	\$12,230	\$21,950		\$23,400

[ A ] Bank charges for the extension of the loan agreement connected with the construction of the Well, Storage and related plant and equipment



Hawaiian Beaches Water Company  
Rate Case Amortization  
Test Year Ending December 31, 2010

		[ 1 ]		[ 2 ]
Line #	Description	Ref:	Amount	Test Year
<u>PREPARATION AND FILING</u>				
1	Rate case consulting		\$45,000	
2	Legal		25,000	
3	Travel		1,000	
4	Other non-labor		1,000	
5	subtotal			72,000
<u>DISCOVERY AND SETTLEMENT</u>				
6	Rate case consulting		25,000	
7	Legal		50,000	
8	Travel		1,000	
9	Other non-labor		1,000	
10	subtotal			77,000
<u>HEARINGS AND BRIEFING</u>				
11	Rate case consulting		15,000	
12	Legal		25,000	
13	Travel		2,000	
14	Other non-labor		1,000	
15	subtotal			43,000
16	Total			192,000
17	Total to be Recovered			192,000
18	Amortization Period			2
19	Test Year expense			\$96,000

Hawaiian Beaches Water Company  
Repair & Maintenance  
Test Year Ending December 31, 2010

Line #	Description	Ref:	2007 # 2006-0442	Year Ended 12/31/07	Year Ended 12/31/08	5-Months Ended 5/31/09	7-Months Ended 12/31/09	Year Ended 12/31/09	Present Rates Test Year 12/31/10
1	Repair & Maintenance		\$12,600	\$3,903	\$819	\$500	\$700	\$1,200	\$1,500
2	Training			2,999	1,645	685	959	1,644	1,700
3	Other					500	700	1,200	1,200
4									
5									
6									
7									
8	Total		\$12,600	\$6,902	\$2,464	\$1,685	\$2,359	\$4,044	\$4,400

Hawaiian Beaches Water Company  
Capitalized Non-Payroll Expenses  
Test Year Ending December 31, 2010

Line #	Description	Ref:	2007 # 2006-0442	[1]	[2]	[3]	[4]	[5]	[6]	[7]
					Year Ended 12/31/07	Year Ended 12/31/08	5-Months Ended 5/31/09	7-Months Ended 12/31/09	Year Ended 12/31/09	Present Rates Test Year 12/31/10
1	Capitalized Expense - Non PR				(\$2,737)	(\$30,597)	(\$5,000)	(\$2,000)	(\$7,000)	(\$4,000)
2	Other								0	
3			\$0		(\$2,737)	(\$30,597)	(\$5,000)	(\$2,000)	(\$7,000)	(\$4,000)

Hawaiian Beaches Water Company  
Bad Debt Expense  
Test Year Ending December 31, 2010

Line #	Description	Ref:	[ 1 ] 2007 # 2006-0442	[ 2 ] Year Ended 12/31/07	[ 3 ] Year Ended 12/31/08	[ 4 ] 5-Months Ended 5/31/09	[ 5 ] 7-Months Ended 12/31/09	[ 6 ] Year Ended 12/31/09	[ 7 ] Present Rates Test Year 12/31/10

[Information will be provided when, and if, it becomes available.]

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**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 11**

**PRO FORMA REVENUE SUMMARY**

**( 2 Pages )**

Hawaiian Beaches Water Company  
Test Year Ending December 31, 2010  
PRO FORMA REVENUE CALCULATIONS - Customer Monthly Charge

Exhibit HBWC 11  
Application Filed July 17, 2009  
Page 1 of 1  
WITNESS O'BRIEN

Line #	Description # in Gallons	Reference Or Factor	[ 1 ]	[ 2 ]	[ 3 ]	PRESENT RATES			[ 6 ]	[ 7 ]	[ 8 ]	PROPOSED RATES			[ 11 ]	[ 12 ]		
						Average Monthly Usage Per Customer (000) gal	Number Of Customers	Monthly Customer Charge Revenue				Annual Customer Charge Revenue	Monthly Customer Charge Revenue	Number of Months			Annual Revenue Usage Charge	Total
CUSTOMERS AT 6-30-09																		
1	Customers Using 0 to 1,000			116	0.315	\$ 5,575	\$ 66,900	\$ 3,480	\$ 211	12	\$ 41,760	\$ 2,532	\$ 44,292		-33.8%			
2	Customers Using 1,001 to 5,000			329	2.930	15,812	189,744	9,870	5,573	12	118,440	66,876	185,316		-2.3%			
3	Customers Using 5,001 to 10,000			399	7.296	19,176	230,112	11,970	16,830	12	143,640	201,960	345,600		50.2%			
4	Customers Using 10,001 to 15,000			162	12.164	7,786	93,432	4,860	11,394	12	58,320	136,728	195,048		108.8%			
5	Customers Using 15,001 to 25,000			76	17.993	3,653	43,836	2,280	7,907	12	27,360	94,884	122,244		178.9%			
6	Customers Using over 25,000			18	35.081	865	10,380	540	3,651	12	6,480	43,812	50,292		384.5%			
7				1,100	7.881	52,867	634,404	33,000	45,566		396,000	546,792	942,792		48.6%			
ADDITIONAL CUSTOMERS TO 12-31-09																		
8	Customers Using 5,001 to 10,000			0	7.296	0	0	0	-	12	-	-	-					
9	Customers Using 10,001 to 15,000			1	12.164	48	576	30	70	12	360	840	1,200		108.3%			
10	Customers Using 15,001 to 25,000			0	17.993	0	0	0	-	12	-	-	-					
ADDITIONAL CUSTOMERS TO 12-31-10																		
11	Customers Using 5,001 to 10,000			1	7.296	48	288	30	42	6	180	252	432		50.0%			
12	Customers Using 10,001 to 15,000			2	12.164	96	576	60	141	6	360	846	1,206		109.4%			
13	Customers Using 15,001 to 25,000			1	17.993	48	288	30	104	6	180	624	804		179.2%			
14	TOTAL ALL			1,105	37.0	\$ 53,107	\$ 636,132	\$ 33,150	\$ 45,923		\$ 397,080	\$ 549,354	\$ 946,434		48.8%			
15	Total Average Customers			1,103	7,918.0													
16	Other Revenue						3,000						3,000					
17	TOTAL REVENUE					\$ 639,132					\$ 949,434		\$ 310,302					

**Hawaiian Beaches Water Company  
Test Year Ending December 31, 2010  
Other Revenue**

Exhibit HBWC 11.1  
Application Filed July 17, 2009  
Page 1 of 1  
WITNESS O'BRIEN

Line #	Description	[ 1 ] Factor Or Reference	[ 2 ] Amount	[ 3 ] Amount	[ 4 ] Total

[Information will be provided when, and if, it becomes available.]

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 12**

**COST OF SERVICE SUMMARY**

**( 2 Pages )**



HBWC  
Test Year Ending December 31, 2010

Exhibit HBWC 12  
Application Filed July 17, 2009  
Page 1 of 1  
WITNESS O'BRIEN

Cost of Service - Summary

		[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
				Balance Distributed To		
Line #	Description		Test Year Amount	Fixed Charges	Variable Charges	Common
<b>RATE BASE</b>						
1	Plant in Service	Exh 12.1	\$ 1,894,848	\$ 762,948	\$ 1,023,409	\$ 108,491
2	Accumulated Depreciation	Exh 12.1	(400,884)	(151,809)	(178,232)	(70,843)
3	Net Plant	L 1 + L 2	1,493,964	611,139	845,177	37,648
4	HCGETC	L 3 Ratio	(20,944)	(7,931)	(9,312)	(3,701)
5	ADIT	L 3 Ratio	(27,104)	(11,087)	(15,333)	(683)
6	Net CIAC	Fixed	(73,158)	(73,158)		
7	Customer Deposits	L 3 Ratio	(11,462)	(4,689)	(6,484)	(289)
8	Working Capital	L 3 Ratio	48,719	19,930	27,562	1,228
9	Rate Base	Sum L3 to L 8	\$ 1,410,015	\$ 534,204	\$ 841,610	\$ 34,203
10	Rate of Return		9.00%	9.00%	9.00%	9.00%
11	Net Operating Income	L 8 * L 10	126,901	48,078	75,745	3,078
12	Amortization of CIAC	RR L 44	(5,703)	(5,703)		
13	Depreciation	Exh 12.1	118,237	44,998	53,834	19,405
14	Plant Related Revenue Requirement	L 11 + L 12 + L 13	239,435	87,373	129,579	22,483
15	<b>EXPENSES</b>	L 14 Ratio		<b>36.5%</b>	<b>54.1%</b>	<b>9.4%</b>
16	Purchased Electricity	WP 10.3	104,400		104,400	
17	Salaries & Wages	L 15 Ratio	228,032	83,209	123,411	21,412
18	Employee Benefits & PR Taxes	L 15 Ratio	57,391	20,942	31,060	5,389
19	Accounting	Fixed	14,000	14,000		
20	Insurance	L 15 Ratio	31,604	11,532	17,104	2,968
21	Auto & Truck Expense	L 15 Ratio	15,000	5,474	8,118	1,408
22	Postage	50 / 50	6,000	3,000	3,000	
23	Legal & Professional	Fixed	2,000	2,000		
24	Communications	L 15 Ratio	6,400	2,335	3,464	601
25	Office Supplies Expense	L 15 Ratio	23,400	8,539	12,664	2,197
26	Rate Case Amortization	Fixed	96,000	96,000		
27	Repair & Maintenance	L 15 Ratio	4,400	1,606	2,381	413
28	Bad Debt Expense		-	-	-	-
29	Capitalized Non-Payroll Expenses	Fixed	(4,000)	(4,000)		
30	Total Expenses	Sum L 16 to L 29	584,627	244,637	305,602	34,388
31	Sub-Total Revenue Requirement	L 14 + L 30	824,062	332,010	435,181	56,871
32	Allocation of Common	L 31 Ratio	0	24,612	32,259	(56,871)
33	Sub-Total Revenue Requirement	L 31 + L 32	824,062	356,622	467,440	-
34	Taxes Other than Income Taxes	Ratio L 33	60,621	26,235	34,387	-
35	Income Taxes	Ratio L 33	64,714	28,006	36,708	-
36	Rounding	Ratio L 33	36	16	20	
37	Total Revenue Requirement	Sum L 33 to L 36	\$ 949,434	\$ 410,878	\$ 538,556	\$ -

**Proposed Rate Structure**

		Amount	Amount	Amount	Amount
38	Total Revenue Requirement	C 2, L 37	\$949,434		
39	Other Revenue		3,000		
40	Number of Customers for Test Year	Ex 11, C 2, L 15	1,103		
41	Number of Months		12		
42	Number of Customer Bills	L 40 * L 41	13,236		
43	Proposed Rate Per Customer Per Month	Proposed	\$30.00		
44	Monthly Customer Charge Revenue	L 42 * L 43	397,080		\$ 397,080
45	Remainder of Revenue Requirement	L 38 - L 39 - L 44		\$549,354	
46	Customer Monthly Usage in (000) gallon	Ex 11, C 3, L 15	7,918		
47	Number of Months		12		
48	Water Use in (000) gallons	L 46 * L 47		95,016	
49	Proposed Rate Per (000) gallons	L 45 / L 48			\$5.7818

Hawaiian Beaches Water Company  
Cost of Service - Plant & Depreciation  
Test Year Ending December 31, 2010

Line #	Description	[ 1 ] Year Acquired	[ 2 ] Balance as of 12/31/09	[ 3 ] Balance as of 12/31/10	[ 4 ] Average	[ 5 ] Fixed	[ 6 ] Variable	[ 7 ] Common
<b>PLANT IN SERVICE</b>								
1	Structures		\$6,431	\$6,431	\$6,431	25.0%	75.0%	\$6,431
2	Wells		697,055	697,055	697,055			
3	Pumping Equipment		97,480	97,480	97,480			
4	Water Treatment Equipment		26,046	26,046	26,046			
5	Reservoirs & Tanks		456,389	456,389	456,389			
6	Mains		55,083	55,083	55,083			
7	Meters & Services		436,672	471,935	454,304			
8	Office & Shop Equipment		24,915	29,915	27,415			27,415
9	Transportation Equipment		59,113	59,113	59,113			59,113
10	Other Equipment		14,532	16,532	15,532			15,532
11	Total Plant In Service		<u>\$1,873,716</u>	<u>\$1,915,979</u>	<u>\$1,894,848</u>	<u>\$762,948</u>	<u>\$1,023,409</u>	<u>\$108,491</u>
<b>ACCUMULATED DEPRECIATION</b>								
12	Structures							
13	Wells		(\$3,669)	(\$3,727)	(\$3,698)			
14	Pumping Equipment		(17,461)	(52,314)	(34,888)			
15	Water Treatment Equipment		(79,201)	(88,949)	(84,075)			
16	Reservoirs & Tanks		(25,938)	(25,946)	(25,942)			
17	Mains		(11,410)	(34,229)	(22,820)			
18	Meters & Services		(41,343)	(42,445)	(41,894)			
19	Office & Shop Equipment		(105,271)	(135,573)	(120,422)			
20	Transportation Equipment		(10,956)	(14,874)	(12,915)			
21	Other Equipment		(44,359)	(56,182)	(50,271)			
			(2,156)	(5,762)	(3,959)			
22	Total Accumulated Depreciation		<u>(\$341,764)</u>	<u>(\$460,001)</u>	<u>(\$400,884)</u>	<u>(\$151,809)</u>	<u>(\$178,232)</u>	<u>(\$70,843)</u>
<b>DEPRECIATION EXPENSE</b>								
23	Structures							
24	Wells				\$58			\$58
25	Pumping Equipment				34,853			
26	Water Treatment Equipment				9,748			
27	Reservoirs & Tanks				8			
28	Mains				22,819			
29	Meters & Services				1,102			
30	Office & Shop Equipment				30,302			
31	Transportation Equipment				3,918			
32	Other Equipment				11,823			
					3,606			
33	Total Depreciation Expense				<u>\$118,237</u>	<u>\$44,998</u>	<u>\$53,834</u>	<u>\$19,405</u>

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC 13**

**RATE OF RETURN**

( 3 Pages )

**HBWC**  
**ROR - Comparison of Companies**  
**2008 Financial and Other Data**

Exhibit  
Witness  
Page 1 of 1

HBWC 13  
O'Brien

[ 1 ]      [ 2 ]      [ 3 ]      [ 4 ]      [ 5 ]      [ 6 ]      [ 7 ]

Line #	Description	Number Of Customers	Revenue	Plant In Service	Total Long-Term Debt	Total Equity	Total Long-Term Debt And Equity	Equity Ratio
1	American States Water Company (Water & Electric)	261,250	\$ 318,718,000	\$ 1,051,838,000	\$ 266,536	\$ 310,503	\$ 577,039	53.8%
2	Aqua America Inc.	945,540	626,972,000	3,848,419,000	1,321,059,000	1,058,446,000	2,379,505,000	44.5%
3	Artesian Resources Corp.	73,800	56,185,000	376,851,000	107,555,000	87,794,000	195,349,000	44.9%
4	California Water Service Company	460,000	410,312,000	1,583,097,000	287,498,000	402,949,000	690,447,000	58.4%
5	Connecticut Water Company	88,000	61,270,000	415,048,000	92,227,000	103,476,000	195,703,000	52.9%
6	Middlesex Water Company	59,700	91,038,000	430,071,000	118,217,000	137,803,000	256,020,000	53.8%
7	Pennichuck Corp	32,599	30,979,000	187,360,000	59,586,000	47,780,000	107,366,000	44.5%
8	SJW Corp	225,000	220,347,000	878,743,000	216,613,000	254,326,000	470,939,000	54.0%
9	Southwest Water Company (Regulated & Services)	160,000	217,347,000	417,903,000 Net	145,353,000	159,194,000	304,547,000	52.3%
10	York Water Company	61,527	32,838,000	246,613,000	83,612,000	69,766,000	153,378,000	45.5%
11	Average of "PROXY" Water Companies	236,742	\$ 206,600,600	\$ 943,594,300	\$ 243,198,654	\$ 232,184,450	\$ 475,383,104	50.5%
12	Hawaiian Beaches Water Company	1,100	\$ 641,557	\$ 1,684,536	\$ 1,488,295	\$ (125,248)	\$ 1,343,047	-9.3%
13	Percent HBWC To Average	0.46%	0.31%	0.18%	0.60%	-0.05%	0.28%	

HBWC  
ROR - Comparison of Recommended  
and Final Rates of Return

Exhibit  
Witness  
Page

HBWC 13.1  
O'Brien  
1 of 1

[ 1 ]

[ 2 ]

[ 3 ]

Overall Rate of Return

Line #	Description	Parcell	Utility	Order or Settlement
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**Litigated Cases**

1 Docket No. 94-0140

2 Docket No. 97-0346

3 Docket No. 99-0207

**Settled Cases**

4 Docket No. 94-0345

5 Docket No. 96-0040

6 Docket No. 96-0483

7 Docket No. 00-0309 8.30% 10.26% 9.16%

8 Docket No. 04-0113 7.85% 9.11% 8.66%

9 Docket No. 05-0315 7.95% 8.65% 8.33%

10 Docket No. 2006-0386 8.23% 8.92% 8.62%

11 Docket No. 2006-0387 8.29% 8.98% 8.67%

12 Docket No. 2006-0409 8.68% 11.80% 8.94%

13 Docket No. 2008-0283 8.10% 8.85% 8.50%

14 Docket No. 2006-0396\* 10.84%

\* Proceeding was suspended

HBWC

Exhibit HBWC 13.2  
Witness O'Brien  
Page 1 of 1

RATE OF RETURN

Line #	Description	[ 1 ] Percent of Capital Structure	[ 2 ] Cost Rate	[ 3 ] Rate of Return
1	EQUITY	50.00%	11.00%	5.50%
2	DEBT	50.00%	7.00%	3.50%
3	TOTAL	100.00%		9.00%

COST OF EQUITY

4	High End of Mr. Parcell's ROE in Docket No. 2008-0283 Based on Proxy Group	10.00%	
5	Additional Business and Operational Risk for HBWC over Proxy Group	1.00%	
6	Total Cost of Equity	11.00%	

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**EXHIBIT HBWC-T-100**

**DIRECT TESTIMONY - ROBERT O'BRIEN**

**( 52 Pages )**

**DIRECT TESTIMONY OF ROBERT L. O'BRIEN**

1

2

3 Q. Please state your name and business address.

4 A. My name is Robert O'Brien and my business address is 1753 Via Mazatlan, Rio  
5 Rico, Arizona 85648.

6 Q. By whom are you employed and what is your position?

7 A. I am the sole member of O'Brien Innovative Regulatory Solutions, LLC.

8 Q. Please describe your role in this proceeding.

9 A. I have been retained to assist Hawaiian Beaches Water Company ("HBWC" or  
10 the "Company") with the preparation and filing of their request for, among other  
11 things, general rate relief before the Public Utilities Commission of the State of  
12 Hawaii ("Commission") in this Docket.

13 Q. Please summarize your professional experience and educational background that  
14 relate to your presentation in this proceeding.

15 A. I formed O'Brien Innovative Regulatory Solutions in January 2008 on my  
16 retirement from Black & Veatch Corporation ("B&V"). Prior to January 2008, I  
17 was employed by B&V in its separate operating sector of the Enterprise  
18 Management Solutions as a Principal Consultant since January 2005 when B&V  
19 acquired R.J. Rudden Associates ("Rudden") where I was employed as a Vice  
20 President since January 2000. In my positions with B&V and Rudden, I have  
21 provided services to clients in the areas of Strategic Planning, State Regulatory  
22 Operations, Financial Planning, Administrative Cost Allocations, Rate Case



1 Preparation, Rate Case Management and Rate Case Model Design. Prior to  
2 joining Rudden, I was employed by Citizens Communications Company  
3 (formerly Citizens Utilities Company) ("Citizens") from 1975 to 1999, holding  
4 the positions of Vice President, Strategic Planning and Regulatory Affairs for  
5 Citizens' Public Utilities Sector (1997 to 1999) and Vice President, Corporate  
6 Regulatory Affairs (1978 to 1997) and Manager of Special Studies (1975 to  
7 1978). From 1967 to 1975, I was employed as a controller by companies in the  
8 Printing, Educational, Financial and Communications industries. Prior to 1967, I  
9 was employed by Ernst & Young and attained the status of Senior Auditor after  
10 four years, including two years work experience during the 5-year work-study  
11 program at the University of Cincinnati. I graduated from the University in 1965  
12 with a Bachelor of Business Administration with a major in Accounting. I am a  
13 Certified Public Accountant.

14 Q. Have you previously testified before the Commission or other regulatory  
15 commissions?

16 A. Yes, I have testified before this Commission many times on behalf of Citizens'  
17 Kauai Electric Division prior to 2000, and have presented testimony for the Kauai  
18 Island Utility Cooperative and approximately 20 small Hawaii water or  
19 wastewater utility companies since 2000. In all, I have testified or presented  
20 testimony in over 200 proceedings before the state regulatory commissions in  
21 Arizona, California, Colorado, Hawaii, Idaho, Illinois, Indiana, Montana, Nevada,  
22 Ohio, Pennsylvania, Rhode Island, Tennessee, Vermont and West Virginia for

1 utility operations of electric, natural gas, communications, water and sewer utility  
2 companies. I have presented testimony in company specific proceedings for  
3 general rate increases, commission ordered rate reviews, purchased energy pass  
4 through proceedings, initial certification (aka CPCN) proceedings, acquisitions  
5 and sales of utility companies, disaster relief requirements and recovery of  
6 acquisition premiums. I have testified on the subjects of all rate base elements  
7 including deferred income taxes and cash working capital and on revenues, rate  
8 design and rate of return. In addition, I have testified regarding all operating  
9 expenses including income taxes. Finally, I have testified in generic proceedings  
10 related to income taxes, purchased energy pass through clauses and changes in  
11 regulation of the communications and electric industries.

12 Q. What is the purpose of your testimony in this proceeding?

13 A. I will testify on behalf of HBWC regarding:

- 14 1. The Company's organization, service territory, property and other matters;
- 15 2. A history of the Company's operations and regulatory activity;
- 16 3. The need for the revenue increase, the amount of the proposed overall  
17 revenue increase and other rate making matters;
- 18 4. The filing requirements;
- 19 5. The revenue requirement schedules;
  - 20 a. Overall Revenue Requirement;
  - 21 b. Rate base and related schedules;
  - 22 c. Revenues at present rates;

1 d. Revenues at proposed rates;

2 e. Operating expenses;

3 f. Depreciation expense;

4 g. Income Taxes;

5 h. Revenue and Other Taxes;

6 6. Rate of Return;

7 7. Rate Design; and

8 8. Automatic Power Cost Adjustment Clause.

9 I will also present testimony regarding operational and other areas impacted by  
10 the rate case application including the reasons or justification for rate relief.  
11

12 **ORGANIZATION, SERVICE TERRITORY, AND PROPERTY**

13 Q. Please provide a brief description of the Company's organization.

14 A. HBWC, a Hawaii corporation, was incorporated by Katherine Prescott and Mark  
15 Prescott (collectively, the "Prescotts") for the purpose of acquiring Miller and  
16 Lieb Water Company, Inc's ("MLW") utility assets and taking over the operations  
17 and business of providing water service to the Hawaiian Beaches subdivision.  
18 Pursuant to Decision and Order No. 23313 ("D&O No. 23313"), filed on  
19 March 21, 2007 in Docket No. 2006-0437, the Commission conditionally  
20 approved MLW and HBWC's joint application to sell and transfer MLW's utility  
21 assets and operations to HBWC ("Change of Control"). The Change of Control

1 became effective on April 1, 2007, when HBWC assumed and succeeded to all of  
2 MLW's interests, including its then existing rules, regulations and tariffs.

3 Q. Please provide a brief description of the Company's service territory.

4 A. HBWC is a public utility authorized by the Commission to provide potable water  
5 service within the Hawaiian Beaches subdivision located in Pahoia, Puna District  
6 on the island of Hawaii. The Company's authorized service territory is set forth  
7 on Exhibit A of its Rules, Regulations and Rates for Water Service. A summary  
8 description of HBWC's plant or property is provided in Exhibit HBWC 1, and the  
9 Company's most recent financial statements are included in Exhibit HBWC 2,  
10 Schedules 4 and 5. The Company's current base rates were approved by the  
11 Commission pursuant to Proposed Decision and Order No. 23423, filed on May 8,  
12 2007 ("Proposed Decision and Order"), which was adopted by Decision and  
13 Order No. 23469, filed on May 31, 2007 ("D&O No. 23469"), and Order  
14 No. 23513, filed on June 27, 2007 ("Order No. 23513"), all in Docket No. 2006-  
15 0442.

16  
17 **OPERATIONAL AND REGULATORY HISTORY**

18 Q. Please provide a brief history of the operations of HBWC over the last several  
19 years.

20 A. Since October 2005 when the Prescotts first joined MLW, they have initiated  
21 hands-on management, which has substantially improved the safety and reliability  
22 of the water service provided to MLW's, and subsequently the Company's,

1 approximately 1,100 customers. These improvements have included the  
2 identification and repair of leaks in the distribution facilities, the installation of  
3 over 800 water meters, acquisition of meter reading equipment, the installation of  
4 a new water well, including a 330,000 gallon storage tank and related electrical  
5 and piping facilities, a generator, auto-dialer, and the chlorine analyzer. During  
6 this time, the Prescotts invested approximately \$1.8 million, which included  
7 approximately \$18,000 for a new pump in November 2005 (i.e., before the  
8 purchase of MLW's assets was approved) when the existing pump failed and left  
9 customers without reliable water service for several days. On November 8, 2006,  
10 approximately one year after the Prescotts joined MLW and approximately five  
11 months before Commission approval of the Change of Control, the Prescotts  
12 authorized the filing of an application for an increase in water service rates -- the  
13 first such rate increase since 1980 or over twenty-six years.

14 Q. What was the result of the application for a rate increase filed by MLW on  
15 November 8, 2006?

16 A. The Commission, pursuant to D&O No. 23469, authorized an increase in rates  
17 from the then existing monthly flat rate of \$12.00 per customer plus an electric  
18 power adjustment clause ("EPAC") of approximately \$10.00 per customer per  
19 month to a flat monthly rate of \$48.06 per customer. However, because the  
20 increase approved was approximately 118 percent, the increase was phased in  
21 with the final phase becoming effective on January 1, 2009.

1 Q. Please summarize the status of the water supply and applications for new service  
2 at the time the Prescotts joined MLW.

3 A. In 2006, MLW had one well and pump with a 100,000 gallon storage facility, all  
4 of which were operational, but in need of repair and/or replacement. The pump  
5 was required to run almost 24 hours a day to provide sufficient water to  
6 customers. In addition, the 100,000 gallon storage facility was too small and, if  
7 there was an interruption to the utility's power supply, was only able to supply  
8 customers for about an hour. Piping inlet/outlet had to be reconfigured to meet  
9 chlorine contact time to allow MLW to meet new Ground Water Rule  
10 requirements. In addition, because of the lack of sufficient supply, MLW had  
11 placed a moratorium on any new customer additions and had over 150  
12 applications for new service on file. In order to provide additional water supply  
13 for existing and potential customers, the Prescotts filed an application for  
14 financing approval for the construction of the new well and other required plant  
15 improvements, which was approved by the Commission in Order No. 23513.

16 Q. What was the result of the actions taken by the Prescotts prior to and following  
17 the Commission's approval of the asset sale and application for a revenue  
18 increase?

19 A. The Prescotts first examined the production, storage and distribution facilities,  
20 and identified leaks in the system, which were repaired, reducing water  
21 production requirements. The Prescotts also identified a pressure reducing valve  
22 towards the end of the subdivision that had failed, which was repaired

1 significantly reducing the pressure towards the ocean side of the existing service  
2 territory. In addition, as mentioned earlier, a new pump was installed as the result  
3 of a failure of the existing pump due to a lightning strike, and the Prescotts  
4 worked with Hawaiian Electric Light Company, Inc. ("HELCO") to replace  
5 electrical facilities damaged in that same incident. The Prescotts also began to  
6 install and replace meters, and informed customers that a rate increase application  
7 would be filed once the meters were installed such that, upon Commission  
8 approval of the then upcoming rate application filing, customers would be  
9 charged for water service based on their usage. This resulted in some customers  
10 with leaks in the water service lines on their property taking action to fix those  
11 leaks. The combination of these actions reduced the water delivery requirements  
12 from approximately 19,000,000 gallons per month to approximately 13,000,000  
13 gallons per month.

14 Q. What is the current status of the customer meter installations and how does it  
15 differ from the status back in 2006?

16 A. Approximately 300 meters were installed, including the meter boxes, during the  
17 period 1990 to 2005, none of which had been used to measure the water usage for  
18 customers and many of which would need to have the meters replaced before they  
19 could be used for water metered billing. From 2006 through April 2009,  
20 approximately 800 new meter boxes and meters were installed and 120 meters  
21 were replaced along with some of the meter boxes. While there are currently two  
22 locations where, due to special circumstances, meters have yet to be installed, the

1 Company has been reading meters on a monthly schedule and has been providing  
2 its customers with those monthly water usage amounts. As to the two unmetered  
3 locations, two properties are unoccupied dwellings and the Company has been  
4 unable to contact the property owners.

5 Q. Has the Company completed its construction and installation of the new well,  
6 storage and related facilities ("Well")?

7 A. Yes, it has. The construction of the Well was completed and is currently in  
8 service as the main source of supply of water for HWBC's customers. The  
9 Company signed a contract with Aqua Engineers, Inc., through its subsidiary  
10 Briant Construction, Inc. ("AE-BC") on July 18, 2007, to construct a 450 foot  
11 deep well, a 330,000 gallon steel composite storage site and all related plant and  
12 equipment with a completion date of December 30, 2007 for a total contract  
13 amount of \$1,041,000. For various reasons, including the change in the well  
14 driller, permitting delays and local regulatory requirements, the Well was not  
15 completely operational until April, 2009. The well itself was completed in  
16 April 2008, but was not put online until the rest of the improvements, such as the  
17 new storage, the piping and other connections were completed.

18 Q. Why was the final contract amount higher than the amount the Prescotts estimated  
19 for the project at the time financing approval was sought?

20 A. Prior to the time the financing approval was sought, the Prescotts had discussed  
21 the proposed water well and tank project with an independent consultant located  
22 on the Big Island that had constructed several water well and/or water tank



1 projects on the Big Island. He estimated that the proposed improvements would  
2 cost between \$800,000 and \$900,000. Utilizing that information, the Prescotts  
3 sought financing and Commission approval based on that estimate. Once  
4 financing approval was received, the Company solicited bids for the new  
5 improvements. All bids were significantly higher than \$1.5 million, with at least  
6 one bid coming in excess of \$2 million. Following discussions with AE-BC who  
7 agreed to value engineer the project, the parties agreed to construct the  
8 improvements for the contract amount of \$1,041,000.

9 Q. What was the final cost of the Well construction?

10 A. The final cost of the Well construction, as detailed on Workpaper HBWC 9.1, was  
11 \$1,153,444. The major reason for the difference in cost was the need to replace  
12 the well drilling sub-contractor, because the sub-contractor was not willing to sign  
13 a contract with AE-BC stating that the well would be drilled according to  
14 American Water Works Association specifications. This increased cost of  
15 \$113,101, and raised the original bid from \$1,041,000 to \$1,154,101. The  
16 remaining increases and decreases reflected a net reduction of \$657. These will  
17 be discussed in connection with my testimony on plant additions.

18 Q. When did the Company begin reading meters?

19 A. The Company began reading meters in June 2008. During the early months, there  
20 were many adjustments needed to the meters and the meter reading process. The  
21 Company believes that readings for the months beginning at March 2009 provide  
22 a reasonable starting point for the monthly water usage for the customers and, as

1 will be discussed later in my testimony, the four months from March to June 2009  
2 have been used as the basis for the usage rates in this proceeding.

3 Q. Why do you believe that this four-month period provides a sufficient base for the  
4 establishment of usage rates for HBWC and its customers?

5 A. I think these four months provide a reasonable basis for the establishment of  
6 "short-term" usage rates, because they provide actual data for each customer and,  
7 in many instances, the customer has acknowledged the accuracy of the usage or  
8 has taken steps to repair their water system to eliminate leaks. The Company has  
9 also contacted approximately 100 of its largest water users to discuss the water  
10 usage and verify that the usage is a valid record of the customer's usage or the  
11 customer has committed to repair leaks to reduce the usage.

12 Q. If the proposed rates reflect a short-term billing option, what does the Company  
13 plan to propose for the long-term?

14 A. As I will explain in more detail later in my testimony, the Company:

- 15 1. Has proposed a \$30.00 monthly customer charge which reduces the  
16 revenue to be recovered from the usage charge.
- 17 2. Is proposing to update the usage data monthly through the discovery  
18 period in this proceeding to validate and/or change the monthly usage  
19 for each customer.
- 20 3. Will file a new rate case in July 2011, mainly for the resetting of usage  
21 rates, using the two years worth of data developed during the period  
22 July 2009 to June 2011.

1                   4. Proposes to perform a revenue neutral rate adjustment in July 2010 to  
2                   use the customer usage for the 12 months ended June 2010 to reset the  
3                   monthly charge per thousand gallons without changing the total test  
4                   year revenue.

5   Q.     What is the number of months that should be available prior to an order being  
6           issued in this proceeding?

7   A.     Assuming the case is completed in the six months established for small utilities,  
8           there should be another four months worth of data (i.e., customer usage through  
9           October 2009) available for a total of eight months.

10   Q.    Are there other alternatives if the Commission believes the usage data needs to be  
11          based on a longer period?

12   A.    Yes. While it does not resolve the low-user subsidy issue, the Commission could  
13          establish a fixed monthly charge and order the Company to file a new rate case  
14          once additional monthly usage data becomes available. Another alternative is for  
15          the Commission to establish a fixed rate at this time and also establish a revenue-  
16          neutral rate design portion of the proceeding, which would use the financial  
17          findings from the instant case and change the fixed rates to a combination  
18          monthly charge and usage charge after additional monthly usage data is available.  
19          However, the drawback of this method is that it delays (a) the implementation of  
20          the usage rates; (b) the repair of a number of leaks on customers' property; and  
21          (c) the removal of the subsidy currently being paid by the low-user customers.

1 Q. Can the Company wait for revenue relief until additional monthly usage data is  
2 available?

3 A. No, it cannot. The Company, as shown on Exhibit HBWC 6, requires an increase  
4 of approximately 48.6 percent (line 38) or \$310,308 (line 37, column 1). In  
5 addition, the Company believes that the continuation of a flat rate charge will be  
6 to the detriment of its low usage customers. Based on the proposed rates,  
7 customers using under 3,100 gallons per month (approximately 305 customers)  
8 will receive a decrease in revenue from the current \$48.06 flat charge per month.  
9 The proposed monthly customer charge of \$30.00, which is supported by the cost  
10 of service calculations included in Exhibit HBWC 12, plus the proposed per  
11 thousand gallon water usage charge of \$5.7818 clearly shows that the low-usage  
12 customers have been subsidizing those customers with higher usage. Finally,  
13 many of the customers with water usage at all levels, but particularly those with  
14 high water use who could have substantial leaks in the service lines on their  
15 property which is contributing to the costs to provide water and also to the  
16 revenues required from all customers. Many of these customers have known  
17 about the water leaks in their service lines on their properties, but have not taken  
18 action to repair the leaks since the costs of the repair would not result in any  
19 change in the cost of their water because it is currently based on a flat monthly  
20 rate. If volumetric rates are not implemented, those customers would have no  
21 financial incentive to spend money to repair the water lines on their side of the  
22 water meter, and the water wastage and related costs will continue.

1 Q. Has the Company been in contact with these customers concerning the proposed  
2 volumetric rates and the substantial increase in the monthly water bills if the  
3 repairs to the customer water service lines are not made?

4 A. Yes, it has. The Company has been including the monthly meter read usage on  
5 the customers' monthly bills and has directly contacted approximately 150  
6 customers, including the 100 customers with the highest metered water usage and  
7 sent 78 letters to customers in May 2009.

8 Q. What were the results of those contacts?

9 A. While some of those customers have repaired the water lines on their property or  
10 at least have begun the process for making the repairs, many have not, and based  
11 on discussions with some customers, will not make repairs until the volumetric  
12 rates are put into effect. Where the repairs have been completed, the metered  
13 water usage at those properties has decreased substantially--in some instances  
14 from over 100,000 gallons to under 10,000 gallons per month, or from usage of  
15 50,000 gallons to 5,000 gallons per month. The Company believes that there are  
16 a number of customers that will make repairs pending the rate case and a number  
17 that will wait until the usage billings are approved by the Commission.

18 Q. So although the Company has limited monthly usage data at this time, are you  
19 recommending proceeding with the establishment of volumetric rates at this time?

20 A. Yes, we are. I believe that the Company has a significant revenue requirement  
21 and also has sufficient data to establish volumetric rates, which will substantially  
22 reduce or eliminate the existing subsidy being provided by the low use customers

1 to those with leaks in their service lines. In addition, I believe that another rate  
2 case, filed in two years, or a revenue neutral rate adjustment once additional usage  
3 data is available will enable the Company to update its volumetric charge to  
4 account for the reduced usage that will be evident from the repairs to the  
5 customers' service lines.

6 Q. What are some of the reactions from customers regarding the implementation of  
7 the volumetric rates?

8 A. The reactions have been pretty much as expected. The low usage customers want  
9 the volumetric rates to be put into effect quickly, while the high users, particularly  
10 those with leaks in their system, want them delayed.

11  
12 **REVENUE INCREASE**

13 Q. Please describe the revenue increase the Company is requesting in this  
14 proceeding.

15 A. As shown on Exhibit HBWC 6, line 7, column 1, the total revenues for the test  
16 year ended December 31, 2010 ("TY") at present rates are \$639,132 and the  
17 revenue increase required is \$310,302 as shown on line 7, column 2. This results  
18 in a revenue increase of approximately 48.6 percent as shown on line 38, which  
19 will provide the Company with a recovery of its TY expenses and a return on its  
20 average TY rate base of 9.00 percent.

21 Q. Why is the Company filing this request for a revenue increase at this time?

1 A. The Company is filing because it has completed its Well installation and also  
2 completed, with the exception of the two customers referenced earlier, its meter  
3 installations and is seeking to establish a monthly customer charge and usage rate  
4 for its customers. This is in accord with Ordering Paragraph 4 (Part V, subpart 4)  
5 of the Proposed Decision and Order, which was adopted by D&O No. 23469.

6

7

**FILING REQUIREMENTS**

8 Q. Please describe Exhibit HBWC 1.

9 A. Exhibit HBWC 1 contains 2 pages which include a brief description and listing of  
10 the Company's property and equipment used to provide for the pumping,  
11 treatment, and distribution of potable water to the Company's customers.

12 Q. Please describe Exhibit HBWC 2.

13 A. This exhibit contains six schedules showing HBWC's financial information.  
14 Schedule 1 shows the Company's issued and outstanding stock. Schedule 2  
15 presents the Common Stock outstanding as of the years 2007 to 2009, while  
16 Schedule 3 shows the Company's Security Agreements, Mortgages or Deeds of  
17 Trust outstanding.

18 Q. Does the Company plan to execute any new loans or other instruments of debt in  
19 the near future?

20 A. No, the Company has no plans for such actions at this time.

21 Q. Please describe the remaining schedules in Exhibit HBWC 2.

1 A. Schedule 4 presents the unaudited financial statements for the year ended  
2 December 31, 2008, the last available complete fiscal year for HBWC, as  
3 compiled by the Company's external accounting firm of Peasley, Aldinger &  
4 O'Bymachow. Schedule 5 presents the unaudited financial statements for the  
5 Company for the six months ended June 30, 2009, which are the latest available,  
6 as compiled by the Company's external accounting firm of Peasley, Aldinger &  
7 O'Bymachow. Finally, Schedule 6 shows the Company's promissory notes,  
8 bonds, or other indebtedness.

9 Q. What is contained in Exhibit HBWC 3?

10 A. Exhibit HBWC 3 contains detail related to HBWC's property and equipment and  
11 the related accumulated depreciation at December 31, 2008, 2009 and 2010.

12 Q. Please describe Exhibits HBWC 4 and HBWC 5.

13 A. Exhibit HBWC 4 shows the present rate schedule for HBWC, while Exhibit  
14 HBWC 5 sets forth the proposed rate schedule.

15

16 **REVENUE REQUIREMENT SUMMARY**

17 Q. Please describe Exhibit HBWC 6.

18 A. This exhibit presents a summary of the results of operations at present and  
19 proposed rates for the TY. In addition, it shows the rate of return at present rates,  
20 the required revenue increase, and the resulting rate of return at the rates proposed  
21 by the Company. The total revenue requirement at proposed rates of \$949,434  
22 (line 7, column 3) requires a revenue increase of \$310,302 (line 7, column 2), or



1 approximately 48.55 percent (line 38), over the TY revenues at present rates of  
2 \$639,132 (line 7, column 1).

3 Q. Please describe the difference of \$6 between the calculated revenue requirement  
4 increase of \$310,308 on line 37 in column 1 and the \$310,302 on line 7 in  
5 column 2 of Exhibit HBWC 6.

6 A. This small difference is due to the fact that the \$310,302 is calculated using  
7 monthly rates that are rounded to the nearest \$0.01 and water use rates that are  
8 also rounded as shown on Exhibit HBWC 11, while the \$310,308 is a calculation  
9 that does not require rounding by customer charge or monthly usage rate. There  
10 will usually be a small rounding difference between the calculated revenue  
11 requirement, the \$310,308, and the revenue determined by the monthly and  
12 commodity rates, \$310,302.

13 Q. Please describe Exhibit HBWC 6.1.

14 A. This exhibit shows the calculation of the Gross Revenue Conversion Factor  
15 ("GRCF") on lines 1 to 18 that is used to establish the revenue increase required.  
16 It provides for the expenses that have to be recovered from increased revenue to  
17 provide the net operating income increase required to have the opportunity to  
18 achieve the rate of return determined reasonable in this proceeding. As shown on  
19 lines 2 to 12, these expenses include bad debts, revenue taxes and income taxes.  
20 Each of these expenses will vary with revenue levels. As shown on line 13, after  
21 each of those expenses are deducted from revenue, there is 62.0045 percent of  
22 revenue remaining for net income. This is used to determine the GRCF shown on

1 line 18 of 1.612786. As discussed in connection with the income tax calculation  
2 on Exhibit HBWC 7, the GRCF used on Exhibit HBWC 6, line 36, of 1.54500 is  
3 slightly lower than the GRCF calculated on line 18 of Exhibit HBWC 6.1 because  
4 of the operating loss for the Company at present rates in the TY.

5 Q. Please describe Exhibit HBWC 7.

6 A. Exhibit HBWC 7 shows the income tax expense calculation at present and  
7 proposed rates. The Company has used the statutory rates applied to the taxable  
8 income in its calculations. The income tax calculation is shown in columns 5 to 7  
9 for the revenue at present rates, the revenue increase and the revenue at proposed  
10 rates, respectively. While each of the three calculations uses the taxable income  
11 appropriate for the heading and the statutory rates, there is a small difference  
12 between the total of the income taxes at present rates plus the income taxes on the  
13 revenue increase and the calculated income taxes at proposed rates. Line 14  
14 shows the state income taxes at present rates of (\$5,076) in column 5 and \$17,341  
15 for the revenue increase in column 6. The net total of these two calculated state  
16 income tax amounts is \$12,265 which is \$1,249 higher than the calculated state  
17 income taxes at proposed rates of \$11,016 shown in column 7 on line 14. This is  
18 due to the fact that a greater portion of the taxable income for the rate increase  
19 (columns 3 and 6) is included in the higher tax brackets than in the calculation of  
20 revenues at proposed rates (columns 4 and 7). It is the negative taxable income at  
21 present rates which creates the need for the larger revenue increase to attain the  
22 target rate of return at proposed rates. A similar difference is reflected in the

1 calculation of the Federal income tax on line 22. The correct income tax expense  
2 at proposed rates is the \$64,714 shown on line 23 in column 7 of Exhibit  
3 HBWC 7. This is the same amount shown on Exhibit HBWC 6, line 27,  
4 column 3. In order to achieve this income tax expense at proposed rates and the  
5 target rate of return of 9.00 percent, a GRCF of 1.54500 (Exhibit HBWC 6,  
6 line 36, column 1) is used in place of the GRCF on Exhibit HBWC 6.1, line 15 of  
7 1.612786.

8 Q. Is the use of a GRCF that is slightly different from the calculated one reasonable  
9 for the calculations in this proceeding?

10 A. Yes, I believe it is. The objective of the GRCF is to provide for the income taxes  
11 at proposed rates to achieve the rate of return found reasonable in this proceeding.  
12 This is necessary because of the anomaly created by the negative earnings at  
13 present rates, and provides an accurate calculation for the net operating income at  
14 proposed rates. In this instance, the GRCF on Exhibit HBWC 6, line 36 is  
15 adjusted to attain the rate of return of 9.00 percent used to determine the revenue  
16 requirement and rate increase. The income tax calculation at proposed rates  
17 provides confirmation that the GRCF is correct.

18 Q. What is contained on Exhibit HBWC 8?

19 A. This exhibit shows the calculation of taxes other than income taxes on revenue  
20 pro forma at present and proposed rates.

21 Q. Please describe Exhibit HBWC 9?

1 A. Exhibit HBWC 9 presents a summary of the rate base elements at December 31,  
2 2009 and 2010 and the average rate base for the TY. The average rate base for  
3 the TY is \$1,410,016 as shown on line 14, column 3. Each of these elements will  
4 be discussed in connection with the separate schedules for each of the rate base  
5 elements in Exhibit HBWC 9.

6 Q. Please describe Exhibit HBWC 9.1.

7 A. This exhibit shows the summary rate base calculations at December 31, 2009 and  
8 2010 with pro forma adjustments that are the basis for the summary schedule  
9 presented in Exhibit HBWC 9.

10 Q. Please describe Exhibit HBWC 9.2.

11 A. Exhibit HBWC 9.2 presents the plant-in-service detail for December 31, 2008 and  
12 for the years ended December 31, 2009 and 2010 used to support the data  
13 presented on Exhibit HBWC 9.1. HBWC's plant additions budgeted for the fiscal  
14 year 2009 are shown in column 4. These include the addition of the Well and  
15 new storage tank, which are shown on lines 4 and 12, respectively, and detailed  
16 on Workpaper HBWC 9.2. In addition, the expenditures for the remaining meters  
17 are shown on line 16 and an expenditure for office furniture and equipment of  
18 \$5,000 on line 20. Finally, the Company has provided for equipment and  
19 computers to allow for field staff to update records from the field and to monitor  
20 system components such as pump and electrical equipment to permit rapid  
21 responses in instances of pump or electrical equipment failures as well as tank

1 levels after hours. This equipment basically provides for additional system

2 reliability at a cost of \$10,000 as shown on line 27.

3 Q. What capital expenditures are planned for 2010?

4 A. As shown on Exhibit HBWC 9.2, column 8, the Company is planning for capital  
5 expenditure of \$35,263 for meters (line 17), \$5,000 for additional office furniture,  
6 equipment and improvements (line 21) and \$2,000 for other miscellaneous  
7 equipment (line 28).

8 Q. What is contained in the \$35,263 expenditure proposed for the meters?

9 A. This includes \$10,000 for equipment and materials to replace some of the older  
10 meters and meter boxes, and \$25,263 for capitalized labor, benefits and expenses.

11 Q. Please describe Workpaper HBWC 9.2.

12 A. Workpaper HBWC 9.2 contains 4 pages and provides the support for the Well  
13 construction costs. Page 1 shows the costs directly related to major components  
14 of the Well construction on lines 1 to 9 and the more common costs on lines 10 to  
15 21, with the total by component of \$1,153,444 shown on line 22. The  
16 components through line 19 are supported by pages 2 to 4 of Workpaper HBWC  
17 9.2, which include the changes from the original contract sum of \$1,041,000 and  
18 the change orders that resulted in the net increase to the \$1,163,195 shown on line  
19 19 in column 3. The additional two elements on lines 19 and 20 reflect costs and  
20 rebates associated with the delay in construction from the completion date under  
21 the original contract. The loan extension costs of \$20,949 reflect charges from  
22 the Bank of Hawaii to extend the period covered by the loan during the

1 construction period. The Company required 6 extensions of the loan which was  
2 the cause of these extension costs. Each of the extensions were based on  
3 completion estimates provided by Aqua Engineers, Inc. through its subsidiary  
4 Briant Construction, Inc. (AE-BC). When those completion dates were not met,  
5 additional extensions were required. The liquidated damages payment from AE-  
6 BC was based on the delay in completion. The Company has included both of  
7 these elements in the total cost of the construction of the Well.

8 Q. Please describe Exhibit HBWC 9.3.

9 A. This exhibit shows the accumulated depreciation for the plant-in-service as shown  
10 by plant type on lines 1 to 28 with the total on line 29. The amounts for the  
11 beginning and end of the TY are in columns 7 and 11 on line 29, respectively.

12 Q. What is contained on Exhibit HBWC 9.4?

13 A. Exhibit HBWC 9.4 contains the calculation of depreciation expense. The  
14 depreciation expense for the TY is calculated in column 8 using the plant balance  
15 in column 3 and the plant depreciation rates shown in column 4. The additions to  
16 plant in the years ended December 31, 2009 and December 31, 2010 reflect one  
17 half year depreciation in the year of acquisition. The total TY depreciation  
18 expense is \$118,237 as shown on line 29 in column 8.

19 Q. Please describe Exhibit HBWC 9.5.

20 A. This exhibit shows the calculation of the Hawaii Capital Goods Excise Tax Credit  
21 ("HCGETC") for 2008 through 2010. The gross plant additions listed in  
22 column 2 are reduced by capitalized expenditures, mainly payroll, employee

1 benefits and taxes and other expenditures where the Company did not pay a  
2 General Excise Tax ("GET") and therefore cannot take a HCGETC. As can be  
3 seen, the plant additions to meters and meter installations are reduced by  
4 60 percent to approximate the amount of payroll, employee benefits and taxes and  
5 other expenditures that did not include a GET addition and therefore should be  
6 removed. The net amounts in column 4 were multiplied by 4.0 percent and then  
7 amortized using the annual depreciation rate shown in column 1. The total  
8 unamortized amounts on line 17 in columns 9 and 11 are then reflected on the rate  
9 base schedule for 2009 and 2010, respectively.

10 Q. What is contained on Exhibit HBWC 9.6?

11 A. Exhibit HBWC 9.6 shows the calculation of the accumulated deferred income  
12 taxes ("ADIT") for the TY.

13 Q. What is ADIT?

14 A. The ADIT represents the Federal and State income tax on the difference between  
15 the depreciation expense used in the calculation of income taxes on the  
16 Company's income tax return ("tax depreciation") and the depreciation expense  
17 calculated for financial statement purposes ("book depreciation"). In most  
18 instances, the ADIT results in a reduction from rate base to reflect the fact that tax  
19 depreciation results from accelerated depreciation methods and shorter  
20 depreciable lives than those used for book depreciation.

21 Q. What is the ADIT used in the rate base calculation for HBWC?

1 A. The ADIT for 2009 is \$26,806 as shown on line 36 in column 8 and \$27,401 for  
2 2010 as shown on line 36 in column 11. These amounts are included as a  
3 reduction to rate base on Exhibit HBWC 9 and 9.1 for the respective years.

4 Q. What is contained on Exhibit HBWC 9.7?

5 A. Exhibit HBWC 9.7 shows the calculation of the contributions-in-aid-of-  
6 construction ("CIAC") at December 31, 2008, 2009 and 2010. The CIAC is being  
7 amortized annually using the fifteen-year depreciation composite rate for the  
8 depreciation of the meter box and meters.

9 Q. How did you determine there would be eight additional CIAC payments in 2009  
10 and four in 2010?

11 A. The Company has received six requests for service through June 2009 and expects  
12 two additional requests for the remainder of the year. The Company also expects  
13 an additional four requests for the TY. Each request for service requires a  
14 payment of \$1,500, which is used to calculate the increase of CIAC for each year.

15 Q. Does the receipt of a request for service mean that the Company will have a  
16 customer at that time or in the near future?

17 A. No, it does not. There is a substantial time delay between a request for service  
18 and the construction and completion of the residence, which is approximately  
19 when a new customer will be added to the Company's customer list. For  
20 example, the Company expects to have two additional customers in 2009 from the  
21 eight requests for service and only two additional customers in 2010. This is  
22 based on the Company's observation of new construction in the service territory.



1 Q. Please describe Exhibit HBWC 9.8.

2 A. Exhibit HBWC 9.8 reflects the customer deposits held by HBWC as of  
3 December 2007, 2008, 2009 and 2010.

4 Q. What is contained on Exhibit HBWC 9.9?

5 A. This exhibit shows the calculation of the working capital using the formula  
6 method which results in a working capital amount for the TY of \$48,719. This  
7 method, which is used by the Commission for small utilities, uses one-twelfth of  
8 the operating expenses as a surrogate for the working capital as shown on lines 17  
9 to 19 of Exhibit HBWC 9.9.

10 Q. What is working capital?

11 A. Working capital represents the funds that a utility must have to pay for the service  
12 it provides to its customers before it receives payment from the customers for that  
13 service.

14 Q. How can working capital be calculated?

15 A. There are several methods that can be used to determine the working capital  
16 requirement for a utility. First, the method that is used mostly for small utilities,  
17 such as HBWC, is the formula method. Under this method, a factor is applied to  
18 expenses and the result is used as an addition to rate base to represent the funds  
19 provided by the investor. Another method is to conduct a lead-lag study, which  
20 measures the time it takes a customer to pay its bill for service and compares that  
21 to the time it takes the utility to pay for providing the service. This process is  
22 somewhat time consuming and generally not used for the smaller utilities.

1 Q. Does the formula method provide a reasonable amount of working cash for  
2 HBWC in this proceeding?

3 A. Yes, it does.

4 Q. What is contained on Exhibit HBWC 10?

5 A. Exhibit HBWC 10 presents a summary of the revenue and expense for the years  
6 2007, 2008, budgeted for 2009 and pro forma for 2010 at present rates.

7 Q. Why are you showing only the revenue and expenses beginning in 2007?

8 A. 2007 was the test year in the last rate case for HBWC and represents the first full  
9 year of operations of the Company under the Prescotts' ownership. As such, the  
10 years 2004 to 2006 would not be meaningful to the level of operating revenue or  
11 expense for the pro forma TY in this proceeding. I have included the revenue and  
12 expenses from the settlement agreement approved in the prior case, D&O No.  
13 23469, and also the recorded revenue and expenses for 2007, 2008 and through  
14 June 2009. In addition, Exhibit HBWC 10 shows the budgeted revenue and  
15 expense for the remainder of 2009 and pro forma for 2010.

16 Q. Please describe what is contained on Exhibit HBWC 10.1.

17 A. Exhibit HBWC 10.1 presents the Salaries & Wages ("S&W") expense for 2007  
18 through the TY 2010. The detailed S&W calculations are contained in  
19 Confidential Workpaper HBWC 10.1. Exhibit HBWC 10.1 shows a TY S&W  
20 expense of \$228,032, which includes a three percent wage increase on July 1,  
21 2009 and a three percent wage increase on January 1, 2010. The Company  
22 intends to have annual wage reviews and increases on January 1 of each year. It

1 deferred the January 1, 2009 increase, because the Well was not completed and  
2 the meter installation had not been completed. The Company has implemented  
3 the increase for July 1 and intends to implement an annual increase on January 1,  
4 2010.

5 Q. How was the overtime percent determined?

6 A. The Company believes that an overtime/callout premium of 5 percent of hourly  
7 wages is reasonable, now that its workforce will be focused on the system  
8 operations, maintenance, meter reading and meter replacements.

9 Q. How was the percent of wages capitalized determined?

10 A. The Company estimated this percent, which is lower than experienced over the  
11 last several years, to reflect the reduction in labor capitalized now that the meter  
12 installation program is effectively completed. The percent capitalized is applied  
13 to the field operations personnel as shown on Confidential Workpaper  
14 HBWC 10.1.

15 Q. Please describe Confidential Workpaper HBWC 10.1.

16 A. Confidential Workpaper HBWC 10.1 shows each employee and the base pay rates  
17 at December 31, 2008 and with the increases at July 1, 2009 and January 1, 2010.  
18 Column 7 shows the annual wages for each employee on lines 6 to 11 and the  
19 totals on lines 4 and 15 for the TY.

20 Q. Please describe the calculations of the TY payroll taxes and employee benefits  
21 shown on Exhibit HBWC 10.2.

1 A. The historic expenses are shown on line 1 and the TY expense on line 2. The  
2 FICA tax expense is calculated on lines 3 to 7. As shown on line 4, none of the  
3 six employees during the TY has a salary amount greater than the limit for  
4 charging FICA expense. Lines 8 to 12 show the expense for the Federal  
5 Unemployment Insurance, lines 13 to 17 show the calculation for the State of  
6 Hawaii Unemployment Insurance at the appropriate limits for each, and the  
7 Temporary Disability Insurance expense is calculated on lines 18 to 20.  
8 Employee benefits, which consist solely of medical benefits, are calculated on  
9 lines 23 to 28 by coverage for each of the six employees. The rates shown in  
10 column 2 are the rates that are effective on July 1, 2009 for each coverage level.  
11 Those rates are increased by 7.74 percent effective July 1, 2010, as shown on  
12 line 26. The 7.74 percent is based on the increase in premiums in 2008 and 2009.

13 Q. How was the portion of the payroll taxes and benefits capitalized determined?

14 A. As shown on lines 31 to 34, the \$5,899 capitalized is 9.32 percent of the total  
15 payroll taxes and benefits, which is the ratio of capitalized labor to total labor as  
16 reflected on lines 31 and 32.

17 Q. What is the total pro forma expense for the TY?

18 A. As shown on Exhibit HBWC 10.2, line 35, column 7, the total expense for  
19 Employee Benefits and Payroll Taxes is \$57,391, which is reasonable for the TY  
20 for HBWC.

21 Q. How were the electric and fuel expenses shown on Exhibit HBWC 10.3  
22 determined?

1 A. Exhibit HBWC 10.3 presents the electric expense for pumping water to be  
2 delivered to customers. Line 7 shows the total electric pumping expense for the  
3 historic period and also for the TY. Lines 8 to 20 show the monthly kWh usage  
4 and total electric pumping costs for the period May 2007 to June 2009. Lines 21  
5 and 22 show the average cost per kWh (line 21) and the average monthly kWh  
6 usage (line 22) for 2007, 2008 and 2009. Finally, lines 22 to 25 in column 7  
7 reflect the calculation of the electric cost for the TY recommended by HBWC.

8 Q. Did you use the historic data to determine the pro forma expense for the TY?

9 A. To an extent. I used the monthly average cost per kWh for 2009 (\$0.2885) as the  
10 base for the pro forma cost for the TY of \$0.2900 as shown on line 24. While I  
11 believe this cost per kWh is going to increase in the coming months, I used it  
12 because the Company has an electric power adjustment clause (EPAC), which  
13 will be adjusted monthly to reflect any increases or decreases in the costs for  
14 electricity purchased from HELCO. However, for the reasons discussed below, I  
15 did not use the average kWh in my pro forma calculation. First, as can be seen by  
16 comparing the monthly averages for 2007 to 2009 on line 22, the average has  
17 been decreasing, basically due to the work by the Prescotts to reduce leaks on the  
18 Company's system and also to work with customers to reduce leaks on their  
19 properties. Second, the monthly average for 2009 is based on estimated usage for  
20 six weeks when a generator was used during the period when the new electric  
21 facilities and the Well were completed. Finally, I think there will be some  
22 efficiencies from the operation of the Well and therefore I used an estimate of

1 30,000 kWh for the pro forma TY calculation. We should have several months of  
2 additional data during the discovery process and this estimate should be reviewed  
3 in connection with that data and adjusted as necessary.

4 Q. What is the pro forma expense for purchased electric utilized for pumping?

5 A. As shown on line 25, the TY amount is \$104,400.

6 Q. Please explain Exhibit HBWC 10.4.

7 A. This exhibit shows the expense for accounting services. The services provided by  
8 HBWC's external accountant have increased since 2007, and now include the  
9 preparation of quarterly financial statements as required by the Company's  
10 lenders and also the preparation of annual reports. In addition, the accountants  
11 also prepare HBWC's tax returns and the related depreciation and other tax  
12 requirements. The accountant's current estimate is that the additional, non-  
13 monthly, activities will increase the total annual cost to \$14,000, which is what is  
14 included as the TY expense in column 7.

15 Q. What is contained on Exhibit HBWC 10.5?

16 A. Exhibit HBWC 10.5 shows the insurance expense for the TY in the amount of  
17 \$31,604 on line 7 in column 7.

18 Q. How was the TY insurance expense calculated?

19 A. As shown on Workpaper HBWC 10.5, column 3, the current annual policy  
20 premiums for each coverage type was used as a base and increased by 5.0 percent  
21 as shown in columns 5 to 7, for the period of time the increase would be effective

1 in the TY. The increase in TY expense in column 7 was added to the current  
2 premium and the total for all policies was used for the TY expense.

3 Q. Please describe Exhibit HBWC 10.6.

4 A. Exhibit HBWC 10.6 shows the auto and truck expenses for 2007 to 2009 and for  
5 the TY. The increase in 2008 is partially connected with the installation of meter  
6 boxes and meters. The capitalized portion is included in the non-payroll expenses  
7 capitalized as shown on Exhibit HBWC 10.13. The Company believes that the  
8 non-capital portion of the auto and truck expense will increase in the TY, because  
9 of the monthly meter readings required, and feels that the \$15,000 is a reasonable  
10 expense estimate.

11 Q. What is contained on Exhibit HBWC 10.7?

12 A. Exhibit HBWC 10.7 shows the postage expense for 2007 to 2009 and for the TY.

13 Q. Please describe what is presented on Exhibit HBWC 10.8.

14 A. Exhibit HBWC 10.8 shows the legal and professional expense for 2007 to 2009  
15 and for the TY.

16 Q. Please describe what is presented on Exhibit HBWC 10.9.

17 A. Exhibit HBWC 10.9 shows the communications expense for 2007 to 2009 and for  
18 the TY.

19 Q. Please describe what is presented on Exhibit HBWC 10.10.

20 A. This exhibit shows the historical and pro forma amounts for Office and Supplies  
21 Expense charges for 2007 to 2009 and for the TY by type of expense including  
22 office supplies, office electric, bank charges and data processing expense.

1 Q. What is contained in the bank charges on line 7?

2 A. These include the fixed monthly charges and the per use charges incurred for  
3 allowing customers to pay using credit cards. The Company, in response to  
4 comments by its customers back in 2006 and 2007, initiated this program to make  
5 it easier for customers to pay the monthly water bill and it has been used by  
6 customers since then.

7 Q. What are the loan document fees on line 8 and why have they been removed from  
8 the Office and Supplies Expense?

9 A. These charges were incurred by HBWC to extend its completion date for the Well  
10 construction based on its agreement with Bank of Hawaii due to the delay in the  
11 completion of the Well by AE-BC. These loan extension charges of \$20,949  
12 were more than offset by the liquidated damage credit for the delay in the  
13 completion of the Well of \$30,700. I believe it is correct to reflect both of these  
14 elements in the total cost of the Well, as was done in the plant additions in 2009.

15 Q. What is contained on Exhibit HBWC 10.11?

16 A. Exhibit HBWC 10.11 reflects the total regulatory expense and the annual  
17 amortization for the rate case expense associated with filing this case. The  
18 expense for each phase was estimated for Rate Case Consulting, Legal, Travel  
19 and Other. The estimates for each expense element were based on the experience  
20 of the regulatory consultant and attorneys retained by the Company to assist in  
21 processing this application. These costs will be updated and replaced with actual  
22 expenses and updated estimates as the case proceeds. In the event the parties



1 reach a settlement in this case and there is no need for the Hearings and Briefing  
2 phase, those estimated costs should be removed during the determination of the  
3 settlement revenue requirement.

4 Q. What is the total estimated regulatory expense for this rate case?

5 A. The total estimate for expenditures for this application, as shown on line 25 of  
6 Exhibit HBWC 10.11, is \$192,000. If there is no need for hearings in this case,  
7 the estimated total would be \$149,000, which would remove the \$43,000  
8 estimated on lines 11 to 15 for the Hearings and Briefing phase. However, those  
9 amounts could increase or decrease based on the actual and updated expenses as  
10 processing of this application proceeds.

11 Q. What is the amortization period recommended by the Company to recover the  
12 regulatory expense?

13 A. The Company is recommending a two-year amortization period. As discussed in  
14 the rate design testimony, the Company will file another rate application in two  
15 years because of the strong likelihood of usage changes by customers once the  
16 usage based rates from this proceeding are effective. As an alternative, which  
17 will also be discussed in the rate design section of my testimony, the Company is  
18 proposing a revenue-neutral rate design filing which would be made in July 2011  
19 and will use financial data from this case and update customer usage based on the  
20 twenty-four months ended June 30, 2011 and adjust revenues to that usage level.  
21 If that proposal is adopted, the Company would change its rate case amortization  
22 period to four years.

1 Q. What is the amount of amortization that should be included in expense in this  
2 proceeding?

3 A. That amount is \$96,000 as shown on Exhibit HBWC 10.11, line 19.

4 Q. What is contained on Exhibit HBWC 10.12?

5 A. This exhibit contains the repair and maintenance expenses for the historic period  
6 and for the TY.

7 Q. What is contained on Exhibit HBWC 10.13?

8 A. This exhibit contains non-payroll and benefits expenses that were capitalized in  
9 2007 and 2008 and the estimated amounts for 2009 and the TY. These expenses  
10 include transportation, office supplies, and repair and maintenance, which are  
11 estimated based on ratios and are related mainly to the installation of meters and  
12 meter boxes. There will be a significant reduction in these capitalized expenses  
13 since the meter installations are basically complete with some additional meter  
14 boxes and meter change outs to be completed in 2009. The Company also  
15 expects some meter work in 2010, but not significant as reflected in the  
16 capitalization of payroll. Finally, the Company will have to install flushing valves  
17 and other equipment on the distribution system.

18 Q. Is the Company requesting recovery of bad debt expense in this proceeding?

19 A. The Company, as shown on Exhibit HBWC 10.14, has not included an amount for  
20 bad debt expense at this time because the Company has not completed its  
21 analysis. The Company will provide an update and supporting data in the event it  
22 can show a recurring bad debt expense level.

1 Q. Please describe Exhibit HBWC 11.

2 A. This exhibit contains a summary of the Company's annual revenues at present and  
3 proposed rates for the monthly customer charge and for the new customer usage  
4 charge at proposed rates. Columns 2 and 3 show the number of customers and  
5 average usage per customer grouped by customer usage. Columns 4 and 5 show  
6 the calculation of TY revenue at present rates on a monthly and annual basis,  
7 respectively. Columns 6 and 7 show the monthly charges at proposed rates for  
8 the monthly customer charge and the monthly volumetric charges, respectively.  
9 Column 8 shows the number of months those charges will be effective in the TY  
10 and columns 9 to 11 show the annual revenue at proposed rates for the monthly  
11 customer charge, the volumetric charge and the total charge, respectively.  
12 Finally, column 12 shows the percent increase by usage grouping for each of the  
13 six groups identified in the description column.

14 Q. What is the significance of the customer groupings?

15 A. Since the rates established in this case will reflect a change from the monthly flat  
16 rate to a combination of a monthly customer charge and a volumetric rate, I tried  
17 to group the customers into usage groups to reflect the impact of the change in  
18 rate design. As can be seen on lines 1 and 2 in column 12, the average customer  
19 in those groups will receive a decrease from the present rate because of their low  
20 usage. In fact, all customers using 3,100 gallons or less (approximately  
21 305 customers or almost 30 percent of the customers) will receive a decrease in  
22 revenue based on the proposed rates. As discussed, these low-usage customers

1 have been subsidizing the higher use customers and also those customers with  
2 leaks that have not been repaired. It will be necessary to implement the  
3 volumetric rates to incent customers with leaks in their service lines to fix those  
4 leaks or pay the volumetric rate on the metered usage.

5 Q. Has the Company tried to get the customers with leaks on their service lines to  
6 voluntarily fix the leaks?

7 A. Yes, it has. The Company has verbally requested over 200 customers to make  
8 such repairs and, while some have already made repairs and others have said they  
9 would make repairs before the volumetric rates are implemented, others with  
10 leaks have not. In fact, the Company has sent a written notice to 78 customers  
11 informing them that if the leaks were not repaired the Company would be forced  
12 to shut off the water to them under Rule X.5, "Wasteful Use Of Water," which  
13 provides the Company with the authority to terminate water service based on a  
14 customer's abuse of water usage. Specifically, Rule X.5 states, "[w]here  
15 negligent or wasteful use of water exists on any premises, the company may  
16 discontinue the service if such conditions are not corrected within five (5) days  
17 after giving the customer written notice of intent to do so."

18 Q. Did that work?

19 A. Again, some customers began repair work to fix the leaks, but others, the  
20 Company is not sure how many, called the Commission's office. Subsequently, a  
21 woman identifying herself as a Commission representative called Kate Prescott to  
22 inform her that the Company did not have a right to shut off the water supply to

1 the customers. Although the Company believed that it is an abuse of water usage  
2 when a customer can reduce the metered water required for personal use by 80 to  
3 90 percent by fixing leaks and does not, the Company was told by the alleged  
4 Commission representative that it should not take such action. Since that time,  
5 the Company's counsel has informally discussed this matter with the  
6 Commission's counsel in an effort to insure the Company will not be in violation  
7 of any rules or regulations in the event the Company decides to shut off the water  
8 supply to a customer that refuses to make such repairs.

9 Q. What does this tell you about what will be required to get the customers with  
10 leaks to repair those leaks and stop wasting water?

11 A. I believe that, short of terminating water service under the Company's Rule X.5,  
12 the only way to incent those customers to fix the leaks and stop wasting water will  
13 be a volumetric charge, which will provide a financial incentive for the customer  
14 to make the financial commitment to repair the service line and fix any leaks.

15 Q. Do you think that the proposal to implement the volumetric rates is sufficient to  
16 incent the customers to make the necessary repairs?

17 A. No, I do not. The Company began providing water usage based on meter readings  
18 to customers in June 2008 and most customers did nothing. The Company then  
19 contacted customers directly, and again, most customers did nothing. Finally, the  
20 Company sought to take firm action based on its rules and was stopped.

1 Q. Returning to the percent increases for customer groupings on Exhibit HBWC 11,  
2 why are the percentage increases for the customers using over 10,000 gallons per  
3 month so high?

4 A. This is a result of the subsidies being paid by the customers with low usage, who  
5 are also likely to be retired individuals or couples. The HBWC service territory,  
6 unlike other water service territories, has a high number of customers who are  
7 retired and have very little landscaping or need for non-personal water use. For  
8 example, over 75 percent of HBWC's customers use less than 10,000 gallons of  
9 water per month and almost one-half or 522 customers use 6,000 gallons a month  
10 or less.

11 Q. Have any of these customers contacted the Company regarding the water use  
12 being reported to them on their monthly bills?

13 A. Yes, they have. Customers have asked when the usage charges would be  
14 implemented, because they believed they would receive a reduction in their bill  
15 since they use little water compared to others.

16 Q. Please describe the data on lines 8 to 13 of Exhibit HBWC 11.

17 A. These lines reflect the customer additions expected by HBWC from June 30, 2009  
18 to December 31, 2010.

19 Q. This only reflects the addition of 5 new customers during that eighteen month  
20 period, is that correct?

21 A. Yes, it is. The Company has not had many requests for service and it takes 12 to  
22 18 months for a new customer to be added to the system once the request for

1 service is received. As stated previously, the Company anticipates four requests  
2 for service from June 30 to the end of 2009 and another four in 2010. However,  
3 the Company is aware of only a couple of lots currently under construction, and  
4 would not expect more than the 5 new customers through the end of the TY.

5  
6 **RATE OF RETURN**

7 Q. Please describe the rate of return ("ROR") used by the Company in this filing.

8 A. The Company believes a ROR of at least 9.00 percent would be appropriate.

9 Q. Did you perform a detailed study of the capital structure and return on equity to  
10 support your ROR recommendation of 9.00 percent?

11 A. No, I used recent ROR testimony submitted in two water utility rate cases by  
12 Mr. David E. Parcell on behalf of the Consumer Advocate, and made an  
13 adjustment to his recommended Return of Equity ("ROE") to recognize the  
14 difference in business and operating risks associated with HBWC, and the average  
15 of the 10 companies used by Mr. Parcell in his Proxy Water Utilities ("Proxy  
16 Group").

17 Q. Does each company in the Proxy Group have different risks and therefore require  
18 a different ROE?

19 A. Yes. As shown on Mr. Parcell's Exhibit CA-205, page 2 of 2 in Docket  
20 No. 2008-0283 for the Kohala Ranch Water Company, each of the Companies in  
21 the Proxy Group has a Beta -- "a measure of relative volatility (and thus risk) of a  
22 particular stock in relation to the overall market." (Docket No. 2008-0283,

1 CA-T-2, page 25, lines 18 and 19, Testimony of Mr. Parcell) With a rating of  
2 1.00 being the Market, the riskiness for nine of the ten companies in the Proxy  
3 Group ranges from 0.65 (least risky) to 1.10 (most risky). It should be noted that  
4 there are seven different Betas for the nine companies. This shows, based on the  
5 Beta risk measurement, that each company has different risks which are averaged  
6 and included in the overall ROE and ROR recommended by Mr. Parcell in that  
7 proceeding.

8 Q. Is that data similar to the data presented by Mr. Parcell in Docket No. 2006-0409  
9 for the West Hawaii Utility Company?

10 A. Yes. As shown on Exhibit CA-306, page 2 of 2 in that docket, there are different  
11 Betas for seven of the ten companies in the Proxy Water Utilities (which are the  
12 same as the Proxy Group) which reflect five different levels of risk measured by  
13 Beta.

14 Q. In your opinion, does Mr. Parcell's ROR presentation measure the financial,  
15 business and operational risk for HBWC or for the water companies in Docket  
16 Nos. 2006-0409 and 2008-0283?

17 A. No, it does not. I think it attempts to measure the financial risk using the Proxy  
18 Group in each of those dockets, but I do not believe it measures the business and  
19 operational risks for either of those two water companies or for HBWC.

20 Q. Please explain why you believe Mr. Parcell does not account for the business or  
21 operational risk of those companies.



1 A. Referring to HBWC, it is significantly different from the individual companies or  
2 the average of the Proxy Group. None of the Proxy Group companies is a stand-  
3 alone water company. None of the Proxy Group companies operate on an island.  
4 None of the Proxy Group companies has a negative equity and none have  
5 customer numbers, plant investment or revenues remotely close to HBWC.

6 Q. Have you prepared an exhibit showing a comparison of the Proxy Group to  
7 HBWC?

8 A. Yes, I have. Exhibit HBWC 13 shows a comparison of seven different  
9 operational and financial measurements between each company in the Proxy  
10 Group, the average of all Proxy Group Companies and HBWC using data from  
11 financial reports of those companies as of December 31, 2008.

12 Q. Please describe Exhibit HBWC 13.

13 A. Exhibit HBWC 13 shows the results for each of the ten Proxy Water Utilities on  
14 lines 1 to 10 and the average of the Proxy Group on line 11. HBWC's data is  
15 presented on line 12 and the percent of HBWC to the average of the Proxy Group  
16 on line 13. Columns 1 to 7 show the comparison categories which include in the  
17 following order: Customers; Revenue; Plant; Debt; Equity; Total Capitalization;  
18 and Equity Ratio. As can be seen on line 13, HBWC represents significantly less  
19 than one percent of the average of the Proxy Group. HBWC has more debt,  
20 compared to the other categories (0.60 percent compared to 0.18 percent for Plant  
21 in Service and 0.46 percent for Number of Customers), which is the result of  
22 HBWC's negative equity. The negative equity of HBWC is significantly different

1 from any specific company in the Proxy Group or the 50.5 percent equity average  
2 for the Proxy Group.

3 Q. Does Mr. Parcell's presentation make any allowance for the significant business  
4 and operational risks from his Proxy Group compared with the water companies  
5 in those dockets?

6 A. No, he does not.

7 Q. In your opinion, would an investor willing to settle Mr. Parcell's recommended  
8 ROE based on the Proxy Group, be willing to settle for that same ROE if the  
9 investment were to be made in HBWC?

10 A. No, in my opinion, an investor would not. First, as I will discuss later, I think an  
11 investor would look for a higher ROE than recommended by Mr. Parcell in either  
12 of the prior referenced dockets. Second, even if we assume that an investor would  
13 settle for the ROE recommended by Mr. Parcell based on his Proxy Group of  
14 companies, I do not believe the investor would settle for that ROE if the  
15 investment would be in HBWC. In addition to the size of HBWC relative to the  
16 Proxy Group, HBWC has a negative equity, which is infinitely more risky than a  
17 company with an equity ratio of 50 percent. Finally, with a customer base of only  
18 1,100 customers, compared to the Proxy Group of between 32,599 and 945,540  
19 with an average of 236,742 (Exhibit HBWC 13, line 11, column 1) it is likely to  
20 take a significant amount of time for HBWC to achieve sufficient earnings to  
21 attain a 50 percent equity ratio. In my opinion, an investor in HBWC would  
22 require a significantly higher ROE than those recommended by Mr. Purcell.

1 Q. What ROE and ROR are you recommending in this proceeding for HBWC?

2 A. I am recommending a ROR of 9.00 percent, based on a capital structure of 50.0  
3 percent equity and 50.0 percent debt using an average debt cost of 7.00 percent  
4 (actual HBWC cost of debt is approximately 7.00 percent using data at  
5 December 31, 2008) and a ROE of 11.0 percent, which uses the high end of  
6 Mr. Parcell's ROE range in his latest presentation in Docket No. 2008-0283 as  
7 reflected on Exhibit CA-209 in that docket and adds 100 basis points (one  
8 percent) to increase the ROE from 10.0 percent to 11.0 percent. I believe that the  
9 overall ROR for HBWC should be higher based on other ROR testimony  
10 submitted by utility witnesses, but believe that a minimum overall ROR of  
11 9.00 percent can be used in this proceeding.

12 Q. Have you researched the ROR presentations made by Mr. Parcell and other  
13 witnesses in the Hawaii cases cited by Mr. Parcell in his testimony in Docket No.  
14 2008-0283 on pages 1 and 2 of CA-T-2?

15 A. Yes, I have.

16 Q. What conclusions did you make based on that research?

17 A. In the fourteen cases cited by Mr. Parcell in Docket No. 2008-0283 and Docket  
18 No. 2008-0283 itself, only three (i.e., Docket Nos. 94-0140; 97-0346 and 99-  
19 0207) were litigated while the remaining ten cases resulted in settlement of the  
20 ROR.

21 Q. Have you prepared an exhibit showing Mr. Parcell's ROR presentations and the  
22 other ROR presentations in those proceedings as well as the Commission's

1 decisions on the three litigated cases and the settlement ROR where it is

2 available?

3 A. Yes, I have. The comparative data are shown on Exhibit HBWC 13.1.

4 Q. Please describe Exhibit HBWC 13.1.

5 A. Exhibit HBWC 13.1 shows each of the rate cases Mr. Parcell cites in his latest

6 testimony. While I have not been able to obtain the ROR data for the three

7 litigated and three settled cases from the 1990s yet, I believe the comparative

8 results will be similar to the seven cases from 2000 listed on lines 7 to 14. Each

9 of those cases show, in column 2, that the utility witness presented a higher ROR

10 recommendation than Mr. Parcell, in column 1 and that the settlement ROR

11 approved by the Commission shown in column 3 was higher than that

12 recommended by Mr. Parcell and lower than the ROR recommended by the utility

13 witness.

14 Q. Will you provide the comparisons for the cases in the 1990s when you get the  
15 data?

16 A. Yes, I will.

17 Q. What conclusion do you draw from the comparison of the ROR data for those  
18 cases cited by Mr. Parcell?

19 A. As can be seen on Exhibit HBWC 13.1, the ROR that was used as the basis for  
20 the Commission's order in each of those cases was greater than the ROR

21 recommended by Mr. Parcell. While these comparisons are for cases that were

22 settled and the ROR was only part of the settlements in those cases, I think it does

1 show that Mr. Parcell's recommended ROR was increased as part of the  
2 settlement in each of those cases.

3 Q. What is the ROR you are recommending for HBWC in this case?

4 A. As shown on Exhibit HBWC 13.2, I am recommending a ROE of 11.0 percent  
5 and an overall ROR of 9.00 percent using a capital structure of 50 percent equity  
6 and 50 percent long-term debt.

7

8 **RATE DESIGN**

9 Q. Have you prepared a cost study to establish the proposed rates and revenue  
10 distributions?

11 A. Yes, I have, Exhibits HBWC 12 and 12.1 reflect the cost of service study  
12 ("COSS") for HBWC for the TY.

13 Q. What do the results of the COSS show regarding the monthly customer charge  
14 and charge for water usage?

15 A. As shown in column 3 of Exhibit HBWC 12, the revenue requirement for fixed  
16 charges of \$410,878 on line 37 is effectively provided for by the \$30.00 per  
17 customer per month charge on line 43 in column 2, which results in an annual  
18 revenue amount of \$397,080 as shown on line 44 in column 3. Once the monthly  
19 customer charge revenue of \$397,080 is deducted from the total revenue  
20 requirement of \$949,434 on line 38 in column 3, a usage charge of \$5.7818 per  
21 thousand gallons is necessary to provide the additional revenue.

1 Q. What is the significance of these results?

2 A. These results support the Company's initial opinion that the existing low usage  
3 customers are subsidizing the larger usage customers, which also includes the  
4 customers with suspected leaks on their property who are wasting water.

5 Q. Please discuss the procedures used to determine the distribution of costs on  
6 Exhibit HBWC 12.

7 A. Column 1 shows the source or the activity used to distribute the costs to each of  
8 the three categories in columns 3 to 5, Fixed Charges, Variable Charges and  
9 Common, respectively. The detail distribution for Plant in Service, Accumulated  
10 Depreciation and Depreciation Expense on lines 1, 2 and 13, respectively, comes  
11 from the distributions by type of plant on Exhibit HBWC 12.1. The net CIAC on  
12 line 6 and the amortization of CIAC on line 12 are included as part of the fixed  
13 charges since the CIAC is directly related to the meter and meter installation  
14 accounts, which are also included in the fixed charges as shown on Exhibit  
15 HBWC 12.1. Other rate base elements are distributed as shown on each line. The  
16 rate base on line 9 is then multiplied by the 9.00 percent ROR to determine the net  
17 operating income on line 11. When this is increased by the net of the CIAC  
18 amortization and depreciation expense on lines 12 and 13 respectively, the plant  
19 related portion of the revenue requirement by category is shown in columns 3 to 5  
20 on line 14. The expenses are distributed to each category using the ratio on  
21 line 15, except where otherwise indicated in column 1. These expenses generally  
22 follow the plant investment in providing service to customers. Where this ratio is

1 not used, the expenses are directly charged to either the fixed or variable category.  
2 For example, the electricity expense is charged to the variable category since most  
3 of those expenses vary with the electric usage which is largely dependent on the  
4 water use which is variable. The expenses charged totally to the fixed expenses,  
5 such as accounting and legal expenses are not dependent on water use and have  
6 been included in the fixed category. Line 32 reflects the distribution of the  
7 common category to the fixed and variable categories. Finally, the taxes other  
8 than income taxes, income taxes and the rounding amounts are distributed to the  
9 fixed and variable categories based on the sub-total of the revenue requirement on  
10 line 33. The final revenue requirement for the fixed and variable categories is  
11 shown on line 37 in columns 3 and 4.

12 Q. How did you determine the monthly customer charge rate of \$30.00?

13 A. I used the average number of customers for the TY of 1,103 shown on line 40 and  
14 multiplied that by 12 months to determine the number of monthly customer bills  
15 for the TY. I then divided the 13,236 total monthly bills on line 42 into the total  
16 fixed revenue requirement of \$410,878 on line 37 in column 3 and rounded the  
17 result of \$31.04 down to \$30.00. This produced the monthly customer charge  
18 revenue of \$397,080 for the TY. When this and the other revenue of \$3,000 on  
19 line 39 are deducted from the total revenue requirement of \$949,434 on line 38,  
20 the remaining revenue requirement of \$549,354 must be obtained from the water  
21 usage. The monthly water usage for the TY of 7,918,000 on line 46 is multiplied  
22 by 12 and the annual water usage for the TY of 95,016,000 is divided into the

1       \$549,354. The resulting water usage rate of \$5.7818 is the proposed water usage  
2       rate for the TY. This is the same rate calculated on Exhibit HBWC 6.1, line 40.

3       Q.     Referring back to Exhibit HBWC 11, column 12, do you recommend that there be  
4       a phase-in of the revenue increase of approximately 48.6 percent shown on  
5       line 14?

6       A.     No, I do not. The customers have been aware of the Company's filing since its  
7       last rate case, which did contain a phase-in of the ordered revenue increase. In  
8       that last rate case, the first in almost 20 years, the Company believed a phase-in  
9       was appropriate because of the long time between rate increases and the potential  
10      impact that a 118 percent increase would have on its customers, particularly the  
11      lower-use customers. In this instance, as shown in column 12 of Exhibit  
12      HBWC 11, customers in the first two usage categories, up to monthly usage of  
13      approximately 5,000 gallons per month, will receive a decrease in their monthly  
14      water charge or a very small increase overall. As mentioned before, all customers  
15      using less than 3,100 gallons per month, approximately 305 or 30 percent will  
16      receive a decrease in their monthly water bill and end the subsidy they are  
17      currently paying to support the large water users and those water customers who  
18      have not repaired suspected leaks on their service lines on their property. In  
19      addition, customers using up to 7,100 gallons per month (over 630 out of 1,100  
20      customers) will have monthly bills at proposed rates at or below the overall  
21      system increase of 48.6 percent.



1 Q. Should the customers using more than the 7,100 gallons per month who would  
2 receive an increase greater than the overall system increase have their rates  
3 phased-in?

4 A. No, they should not. First it would be unfair for the low usage customers, who  
5 have been subsidizing the high water users and suspected water wasters to phase-  
6 in the monthly bill decrease, because if the rates are phased-in for one group of  
7 customers they have to be phased-in for all customer groups. Second, it would be  
8 unfair to the Company to delay this needed revenue increase, when it proceeded  
9 in accordance with the settlement agreement in its prior rate case and with the  
10 Commission's decision on filing a rate case with volumetric rates. Finally, the  
11 customers with high usage, whether the water is required or wasted through  
12 suspected leaks, have been aware that these increases would be coming. The  
13 Company has been informing the customers by providing monthly water usage  
14 data on the bills for most customers for the prior year. In addition, the Company  
15 has worked with the high usage customers to verify the usage being recorded by  
16 the meters was reasonable and to advise the customers of the potential water bill  
17 resulting from that usage. In most instances, these customers would have at least  
18 twelve months (assuming new rates from this proceeding are effective in six-  
19 months following the filing) to plan for the increase in the water bill based on  
20 water usage.

**AUTOMATIC POWER COST ADJUSTMENT CLAUSE**

Q. Does the Company currently have an automatic power cost adjustment clause ("APCAC")?

A. Yes, it does. Currently the Company has an APCAC which was initially authorized in 1980, and again in D&O No. 23423 issued in 2007.

Q. Is the Company proposing to revise the procedure used to calculate the change in customer charges to reflect the change in the electric expense?

A. No, the Company is not proposing to revise the basic procedure which provide for monthly recognition and recovery of the changes in electric expense. The monthly calculation will now reflect the use of the metered water usage as the base for the calculation replacing the use of estimated pumping data. The existing procedure is necessary because of the existing flat rate charges. Since the flat rate charges are being replaced with a monthly customer charge and a volumetric charge, the use of the billed water usage is consistent with a volumetric charge. Workpaper HBWC 10.3 provides an example of how the procedures using the actual electric usage and invoice amount, the base electric charge from this proceeding and the actual monthly metered usage, will be implemented.

Q. Please describe Workpaper HBWC 10.3.

A. This workpaper shows an example of the calculation for a twelve-month period beginning in January 2010. The monthly kWh usage and total bill from the HELCO invoice is reflected in columns 1 and 2, respectively, and the cost per kWh for each month is in column 3. The base cost per kWh from Exhibit HBWC

1        10.3, line 24 is included in column 4 and the difference in the per kWh expense is  
2        reflected in column 5 for each month. The increase in electric expense from the  
3        base is reflected in column 6, which will be used to determine the monthly change  
4        in the per kWh expense. Monthly water use is reflected in column 7 and the  
5        monthly APCAC change is in column 8. The cumulative monthly APCAC  
6        amount in column 9 will be multiplied by each customer's monthly metered water  
7        usage and the result will be added or deducted from the customer's monthly bill.

8        Q.     Does this complete your testimony at this time?

9        A.     Yes, it does.

# **HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

## **WORKPAPERS**

(HBWC 9.2, 10.2, 10.3 and 10.5)

( 7 Pages )

**HBWC  
Plant Additions - 2009**

Well, Storage and Equipment

Workpaper  
Application Filed July 17, 2009  
Witness  
Page 1 of 4  
O'Brien

Line #	Description	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]	
		Percent Charge		Well		Total		Well		Electric Tank	
1	Well	100.0%		0.0%		\$ 324,399	\$	324,399	\$	-	
2	Storage	0.0%		100.0%		254,533		0		254,533	
3	Piping	20.0%		80.0%		52,000		10,400		41,600	
4	Electric Equipment	90.0%		10.0%		62,500		56,250		6,250	
5	Generator	100.0%		0.0%		66,200		66,200		0	
6	Change in Well Driller	100.0%		0.0%		113,101		113,101		0	
7	MCC Building	90.0%		10.0%		11,821		10,639		1,182	
8	Storm Runoff Drywells	100.0%		0.0%		13,021		13,021		0	
9	Sub-Total					897,575		594,010		303,565	
10	Mobilization	50.0%		50.0%		\$ 58,000	\$	29,000		29,000	
11	Design	30.0%		70.0%		104,000		31,200		72,800	
12	Site Work	50.0%		50.0%		24,068		12,034		12,034	
13	Concrete	10.0%		90.0%		32,900		3,290		29,610	
14	Testing	100.0%		0.0%		20,800		20,800		0	
15	DOH Regulatory Permits	100.0%		0.0%		24,541		24,541		0	
16	Design for 2008 Ground Water	0.0%		100.0%		10,214		0		10,214	
17	Chlorine Injection	0.0%		100.0%		3,066		0		3,066	
18	Remove Balance of Contingency	100.0%		0.0%		(11,969)		(11,969)		0	
19	Remove Balance of Contingency					1,163,195		702,906		460,289	
19	Loan Extension Costs	60.0%		40.0%		20,949		12,569		8,380	
20	Liquidated Damages - Delay in Completion	60.0%		40.0%		(30,700)		(18,420)		(12,280)	
21	Total Common										
22	TOTAL					\$ 1,153,444	\$	697,055	\$	456,389	

# Briant Construction, Inc.

3560 Koloa Road  
 Kalaheo, HI 96741  
 (808) 332-7381

## Invoice

DATE	INVOICE #
6/22/2009	3417

### BILL TO

Hawaiian Beaches Water Company  
 Kate Prescott  
 PO Box 22  
 Pahoa, HI 96778

### TERMS

### JOB NO.

353

DESCRIPTION	AMOUNT
Application for Payment No. 20R - Completion of Job. Does not include retention	55,113.12
Item #2 Design 245.12	
Item #6 Tank 12,234.25	
Item #7 Discharge Piping 2,214.02	
Item #8 MCC Building 26,000.00	
Item #9 Electrical 5,061.11	
Item #10 HELCO 15,600.00	
Item #11 Generator 6,620.51	
Item #12 Testing 8,708.75	
CO#6 MCC Bldg 11,821.23	
CO#7 Drywell 13,020.60	
CO#8 Ground Water Rule 10,214.13	
CO#9 Chlorine Injection 3,066.00	
CO#4 HELCO (15,600.00)	
CO#5 MCC Building (26,000.00)	
CO#10 Contingency (11,968.91)	
<b>Total 61,236.81</b>	
10% Retention (6,123.69)	
<b>Total</b>	<b>\$55,113.12</b>

PAGE 1 OF 2

# APPLICATION AND CERTIFICATE FOR PAYMENT

TO OWNER: HAWAIIAN BEACHES WATER COMPANY PROJECT: 353 Hawaiian Beaches  
 PAHOA HAWAII  
 APPLICATION NO. 20R  
 PERIOD TO: 22-Jun-09  
 PROJECT NO. 353

FROM CONTRACTOR: BRIANT CONSTRUCTION, INC.  
 3580 Koloa Road  
 Kalaheo, HI 96741

CONTRACT FOR: Design and Construction of a Potable Water Well for Hawaiian Beaches Water Company

## CONTRACTOR'S APPLICATION FOR PAYMENT

Application is made for payment, as shown below, in connection with the Contract.  
 Continuation Sheet is attached.

1 ORIGINAL CONTRACT SUM \$ 1,041,000.00  
 2 Net Change by Change Orders \$ 122,195.05  
 3 CONTRACT SUM TO DATE (Line 1+2) \$ 1,163,195.05  
 4 TOTAL COMPLETED & STORED TO DATE \$ 1,163,195.05

### 5 RETAINAGE:

a. 10% of Completed Work Less Item No. 3 \$ 72,569.51  
 (Columns D + E on attached)

b. 10% of Stored Material  
 (Columns F on attached)

Total Retainage (Line 5a + 5b or Total in Column I of attached) \$ 72,569.51

6 TOTAL EARNED LESS RETAINAGE \$ 1,090,625.54  
 (Line 4 less Line 5 Total)

7 LESS PREVIOUS CERTIFICATES FOR PAYMENT \$ 1,035,512.42  
 (Line 6 from prior Certificate)

8 CURRENT PAYMENT DUE \$ 55,113.12

9 BALANCE TO FINISH, INCLUDING RETAINAGE \$ 72,569.51  
 (Line 3 less Line 6)

CHANGE ORDER SUMMARY	ADDITIONS	DEDUCTIONS
Total changes approved in previous months by Owner	\$ 137,642.00	\$ 15,600.00
Total approved this Month	\$ 38,121.96	\$ 37,968.91
TOTALS	\$ 175,763.96	\$ 53,568.91
NET CHANGE by Change Order	\$	122,195.05

The undersigned Contractor certifies that to the best of the Contractor's knowledge, information and belief the Work covered by this Application for Payment has been completed in accordance with the Contract Documents, that all amounts have been paid by the Contractor for Work for which previous Certificates for Payment were issued and payments received from the Owner, and that current payment shown herein is now due.

CONTRACTOR: BRIANT CONSTRUCTION, INC.

By: Brian Miller Date: 6/23/09

CONTINUATION SHEET									
APPLICATION AND CERTIFICATE FOR PAYMENT									
PROJECT NAME: 07-353 Hawaiian Beaches Water System									
PAHOA HAWAII									
APPLICATION NO.: 20R									
PERIOD END: 6/22/2009									
A	B	C	D	E	F	G	H	I	
ITEM	DESCRIPTION	SCHEDULED VALUE	WORK COMPLETED PREVIOUS	THIS PERIOD	STORED MATERIAL	TOTAL STORED & COMPLETED	BALANCE TO FINISH	RETAINAGE	
1	MOBILIZATION 5%	58,000.00	58,000.00			58,000.00	-	5,800.00	
2	DESIGN	104,000.00	103,754.88	245.12		104,000.00	-	10,400.00	
3	WELL	324,399.00	324,399.00			324,399.00	-	-	
4	SITE WORK	24,068.00	24,068.00			24,068.00	-	2,406.80	
5	CONCRETE	32,900.00	32,900.00			32,900.00	-	3,290.00	
6	TANK	254,533.00	242,298.75	12,234.25		254,533.00	-	25,453.30	
7	DISCHARGE PIPING	52,000.00	49,785.98	2,214.02		52,000.00	-	5,200.00	
8	MCC BUILDING	26,000.00		26,000.00		26,000.00	-	2,600.00	
9	ELECTRICAL	62,500.00	57,438.80	5,061.11		62,500.00	-	6,250.00	
10	HELCO	15,600.00		15,600.00		15,600.00	-	1,560.00	
11	GENERATOR	66,200.00	59,579.49	6,620.51		66,200.00	-	6,620.00	
12	TESTING	20,800.00	12,091.25	8,708.75		20,800.00	-	2,080.00	
13									
14									
	CHANGE ORDER								
	Additive Change Order								
1	Change in Well Driller	113,101.00	113,101.00			113,101.00	-	-	
2	DOH Regulatory Permit Requirements	24,541.00	24,541.00			24,541.00	-	2,454.10	
3	Electrical Change in Scope - Materials, Equipment (Funded by Contingency)								
6	New MCC Building Design & Construction	11,821.23		11,821.23		11,821.23	-	1,182.12	
7	Design & Construct 2 ea. Storm Runoff Drywells - Required by County of Hawaii	13,020.60		13,020.60		13,020.60	-	1,302.06	
8	Design Requirements to Meet New 2008 Ground Water Rule	10,214.13		10,214.13		10,214.13	-	1,021.41	
9	Request to Pace Chlorine Injection to Pump Flow	3,066.00		3,066.00		3,066.00	-	306.60	
4	Deductive Change Order HELCO Charges for Electrical Feed Construction	(15,600.00)		(15,600.00)		(15,600.00)	-	(1,560.00)	
5	Plastifab MCC Building	(26,000.00)		(26,000.00)		(26,000.00)	-	(2,600.00)	
10	Reduction of Contingency (CO 1&2)	(11,988.91)		(11,988.91)		(11,988.91)	-	(1,198.89)	
	TOTALS	1,163,195.05	1,101,958.24	61,236.81		1,163,195.05	-	72,588.51	



**HBWC**  
**Premium Increase in Medical Coverage**

Workpaper HBWC 10.2  
Application Filed July 17, 2009  
Witness O'Brien  
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TY 2010

[ 1 ]                      [ 2 ]                      [ 3 ]                      [ 4 ]                      [ 5 ]

Line #	Description	Factor Or Reference	Single	2-Party	Family	Total
<u>Monthly Premium Effective July 1,</u>						
1	2007		\$ 336.34	\$ 662.48	\$ 988.62	\$ 1,987.44
2	2008		\$ 358.34	\$ 706.48	\$ 1,054.62	\$ 2,119.44
3	2009		\$ 391.88	\$ 754.48	\$ 1,155.24	\$ 2,301.60
<u>Percent Increase</u>						
4	2008 over 2007		1.0654	1.0664	1.0668	
5	2009 over 2008		1.0936	1.0679	1.0954	
6	Average for 2 years		1.0795	1.0672	1.0811	
7	Monthly Premium 7-1-10	L 3 * L 6	\$ 423.04	\$ 805.17	\$ 1,248.91	\$ 2,477.11
8	Number of Employees		4	1	1	
9	Monthly Expense At 7-1-10 Rate	L 7 * L 8	\$ 1,692.14	\$ 805.17	\$ 1,248.91	\$ 3,746.22
10	Monthly Expense At 7-1-09 Rate	L 3 * L 8	1,567.52	754.48	1,155.24	\$ 3,477.24
11	Increase in Monthly Expense	L 9 - L 10	\$ 124.62	\$ 50.69	\$ 93.67	\$ 268.98
12	Percent Increase	L 11 / L 10				<u>7.74%</u>

## HBWC

Workpaper HBWC 10.3  
Application Filed July 17, 2009  
Witness O'Brien  
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## APCAC Calculation

Line #	Description	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
		Monthly Electric Bill		Cost Per kWh [2]/[1]	Base Cost Per kWh in D&O	Increase (Decrease) in		Monthly Water Sales in 000 gallons	APCAC Change Per 000 Gal	
		kWh Usage	Total Cost			Cost Per kWh [3] - [4]	Electric Expense For APCAC [1] * [5]		Current Month	Cumulative
2010										
1	January	30,000	\$ 9,000	\$ 0.3000	\$ 0.2900	\$ 0.0100	\$ 300	8,700	\$ 0.0345	\$ 0.0345
2	February	35,000	10,000	\$ 0.2857	\$ 0.2900	{0.0043}	\$ (150)	9,500	\$ (0.0158)	\$ 0.0187
3	March	37,000	10,000	\$ 0.2703	\$ 0.2900	{0.0197}	\$ (729)	10,000	\$ (0.0729)	\$ (0.0542)
4	April	34,000	10,000	\$ 0.2941	\$ 0.2900	\$ 0.0041	\$ 139	8,000	\$ 0.0174	\$ (0.0368)
5	May	29,000	9,500	\$ 0.3276	\$ 0.2900	\$ 0.0376	\$ 1,090	7,000	\$ 0.1557	\$ 0.1189
6	June	26,000	9,000	\$ 0.3462	\$ 0.2900	\$ 0.0562	\$ 1,461	8,000	\$ 0.1826	\$ 0.3015
7	July	31,000	9,500	\$ 0.3065	\$ 0.2900	\$ 0.0165	\$ 512	9,000	\$ 0.0569	\$ 0.3584
8	August	31,000	8,000	\$ 0.2581	\$ 0.2900	{0.0319}	\$ (989)	9,500	\$ {0.1041}	\$ 0.2543
9	September	31,000	9,500	\$ 0.3065	\$ 0.2900	\$ 0.0165	\$ 512	9,500	\$ 0.0539	\$ 0.3082
10	October	31,000	10,000	\$ 0.3226	\$ 0.2900	\$ 0.0326	\$ 1,011	9,500	\$ 0.1064	\$ 0.4146
11	November	31,000	10,000	\$ 0.3226	\$ 0.2900	\$ 0.0326	\$ 1,011	9,500	\$ 0.1064	\$ 0.5210
12	December	31,000	10,000	\$ 0.3226	\$ 0.2900	\$ 0.0326	\$ 1,011	9,500	\$ 0.1064	\$ 0.6274
13		377,000	\$ 114,500	\$ 0.3037				107,700		

**HBWC**  
**Insurance Expense for the TY**

2010

Workpaper HBWC 10.5  
Application Filed July 17, 2009  
Witness O'Brien  
Page 1 of 1

Line #	Coverage	[ 1 ] Carrier	[ 2 ] Period	[ 3 ] Annual Premium	[ 4 ] Estimated Annual Increase	[ 5 ] Annual Increase	[ 6 ] Percent of TY Effective	[ 7 ] Increase in TY Expense	[ 8 ] Pro Forma TY Expense
1	Automobile	AIG Hawaii	3-4-09 to 3-4-10	\$ 2,904	5.0%	\$ 145.20	82.7%	\$ 120.14	\$ 3,024
2	General Liability	Nautilus Insurance	1-22-09 to 1-22-10	\$ 9,784	5.0%	\$ 489.20	94.0%	\$ 459.71	\$ 10,244
3	Pollution Liability	Endurance American	1-22-09 to 1-22-10	\$ 5,051	5.0%	\$ 252.55	94.0%	\$ 237.33	\$ 5,288
4	Workers Compensation	Hawaii Employer Mutual	1-3-09 to 1-3-10	\$ 2,217	5.0%	\$ 110.85	99.2%	\$ 109.94	\$ 2,327
5	Property Insurance	Fireman's Fund	10-3-08 to 10-3-09	\$ 6,398					
6	Property Insurance	Fireman's Fund	10-3-09 to 10-3-10	\$ 6,718	5.0%	\$ 335.90	24.4%	\$ 81.90	\$ 6,800
7	Equipment Breakdown	Hartford Steam Boiler	5-29-09 to 5-29-10	\$ 1,839	5.0%	\$ 91.95	59.2%	\$ 54.41	\$ 1,893
8	Key-Man	xxx	Effective 7-1-09	\$ 2,028	0.0%	\$ -	100.0%	\$ -	\$ 2,028

**HAWAIIAN BEACHES WATER COMPANY, INC.**

**Application Filed July 17, 2009**

**CONFIDENTIAL WORKPAPERS**

(HBWC 10.1, 11, and 11.1)

( 39 Pages )

TO BE PROVIDED CONFIDENTIALLY UNDER  
SEPARATE COVER PURSUANT AND SUBJECT TO THE TERMS OF A  
PROTECTIVE ORDER TO BE ISSUED IN THE SUBJECT DOCKET

VERIFICATION OF MICHAEL H. LAU

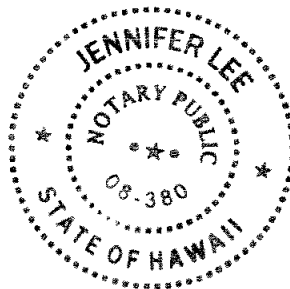
STATE OF HAWAII )  
 ) SS:  
CITY AND COUNTY OF HONOLULU )

MICHAEL H. LAU, being first duly sworn, deposes and says: That he is an attorney for Applicant in the above proceeding; that the officers of Applicant are not present within the City and County of Honolulu; that he has read the foregoing Application, and knows the contents thereof; and that the same are true of his own knowledge except as to those matters stated on information and belief, and that as to those matters he believes them to be true.

  
MICHAEL H. LAU

This 1 page Verification to Hawaiian Beaches Water Company, Inc.'s Application dated July 17, 2009 was subscribed and sworn to before me on July 17, 2009 in the First Circuit, State of Hawaii by Michael H. Lau.

  
Print Name: JENNIFER LEE



Notary Public, State of Hawaii

My Commission Expires: August 25, 2012

CERTIFICATE OF SERVICE

I hereby certify that on this date, copies of the foregoing document were duly served on the following party, by having said copies delivered as set forth below:

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS	4 COPIES
DIVISION OF CONSUMER ADVOCACY	HAND DELIVER
335 Merchant Street	
Room 326	
Honolulu, Hawai'i 96813	

DATED: Honolulu, Hawaii, July 17, 2009.



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MICHAEL H. LAU  
KRIS N. NAKAGAWA  
SANDRA L. WILHIDE

Morihara Lau & Fong LLP  
Attorneys for Applicant  
HAWAIIAN BEACHES WATER COMPANY, INC.